

## **Economics 302 Health Economics**

The discipline of health economics draws upon several ways-of-knowing to establish a lens through which you can understand the complex problems of health care finance. When students are first exposed to economics they learn the beauty of the market mechanism in efficiently allocating scarce resource among alternative uses. They learn the “supply and demand” model but usually in a way that misses the nuance for when and how markets fail. In health economics, all of the reasons that private insurance markets may fail rear their head which is at the heart of why you have inequities in the U.S. system, the expense of the U.S. system, the success of the U.S. system in extending the life of the aged and dealing with complicated cancers, and the failure of the U.S. system when it comes to rudimentary measures of care (infant mortality and life expectancy). The result is a U.S. system that is a little more than half private, expensive, of high quality for those who have coverage and of low quality for those who do not. The solution, to some, is a single payer system, akin to that which exists in the rest of the industrialized world, but those systems have their own flaws. This course goes through it all, from what private health care finance looks like, to why those markets frequently fail from an efficiency and equity standpoint, to the successes and failures of government-run health care systems.

In wading through this topic, students are required to understand the historical context of how the U.S. system of employer-provided health insurance evolved as well as how and why Medicare and Medicaid (and later SCHIPS) were created. Students are required to consider the difficult ethical dilemmas associated with the fact that more than three-quarters of health care expenditures occur in the last year of the patient’s life when the patient is usually passing the vast majority of their costs onto the taxpayer through Medicare. Students are required to justify complex choices when, for instance, they compare systems from different parts of the world and decide whether the universality of the care is worth the price of sometimes less effective care (the typical Canadian wait for a complicated and expensive procedure is many weeks longer than that which exists in the U.S.; breast cancer survival rates are significantly higher in the U.S. than in Europe). They look at these problems using quantitative analyses and ethical lenses and must be able to communicate their findings in writing on essay exams and in a research paper as well as orally as they participate in class discussions.

## Economics 302 Health Economics

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Blackboard Site accessible via your Portal

Book: Health Economics Charles E. Phelps 4ed Pearson-Addison Wesley

Other resources:

- 1) Report of the BOARDS OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE AND FEDERAL SUPPLEMENTARY MEDICAL INSURANCE TRUST FUNDS  
<http://www.cms.hhs.gov/reportstrustfunds/downloads/tr2009.pdf>
- 2) **Pricing, Profits, and Technological Progress in the Pharmaceutical Industry** F. M. Scherer *The Journal of Economic Perspectives*, Vol. 7, No. 3 (Summer, 1993), pp. 97-115 Published by: American Economic Association  
<http://www.jstor.org/stable/pdfplus/2138445.pdf>
- 3) **Toward Allocative Efficiency in the Prescription Drug Industry**; Robert Guell and Marvin Fischbaum (Milbank Quarterly, Vol 73, No 2; 1995 Available from Blackboard)

### **The Big Picture-The Course**

This course serves two purposes. It is an upper division elective within the Economics major and it is also an Integrative Upper Division Elective for Foundational Studies 2010. As an upper-division economics course, this course is intended to explore a particular application of microeconomic theory to an important segment of the economy (16% of GDP) while demonstrating that market failure is common in this area. As an integrative upper-division elective in the Foundational Studies program the course is intended to demonstrate how an important field of economics brings together several of the Foundational Studies program's ways-of-knowing (quantitative literacy, WoK-QL; health and wellness, WoK-H&W; social and behavioral sciences, WoK-SBS; historical studies, WoK-Hist; ethics and social responsibility, WoK-E&SR; and global perspectives and cultural diversity, WoK-GP&CD) into one field of study.

The course uses the tools of theoretical microeconomics to examine how individuals with preferences for health, for consumption generally, and for financial security, are served in a market-based system. It goes on to explore how that market can, and does, fail given the problems of asymmetric information, adverse selection, and moral hazard, and how because health care is, by many, view as a basic right of human existence, markets alone are not likely to generate satisfactory results. The course then explores the regulatory and government insurance choices that are made to, with hope, improve upon market outcomes.

The course compares health care and health insurance systems and examines the alternatives for improving these systems by looking at the systems of other countries, various state experiments, as well as those proposed by those who favor market-based solutions and those who favor governmental and regulatory solutions.

To be an Integrative Upper Division Elective a course must meet the following learning objectives (IUDELO):

1. Use a thematic approach to a particular topic or issue that integrates multiple ways of knowing;
2. Engage in a project or conduct research that makes use of multiple ways of knowing to address a particular topic or issue;
3. Analyze and write at an advanced level.

Because this course is part of the larger Foundational Studies Program, it is important to place its goals within the context of the program's goals. By the conclusion of your Foundational Studies Program at ISU, you will be able to (FSLO)

1. Locate, critically read, and evaluate information to solve problems;
2. Critically evaluate the ideas of others;
3. Apply knowledge and skills within and across the fundamental ways of knowing (natural sciences, social and behavioral sciences, arts and humanities, mathematics and history);
4. Demonstrate an appreciation of human expression through literature and fine and performing arts;
5. Demonstrate the skills for effective citizenship and stewardship;
6. Demonstrate an understanding of diverse cultures within and across societies;
7. Demonstrate the skills to place their current and local experience in a global, cultural, and historical context;
8. Demonstrate an understanding of the ethical implications of decisions and actions
9. Apply principles of physical and emotional health to wellness;
10. Express (yourself) effectively, professionally, and persuasively both orally and in writing.

The program is also designed to build skills for applied learning. These Skill and Applied Learning Objectives (S&ALO) require that the course contribute to

1. Explicitly demonstrate how the curriculum will develop critical thinking skills
2. Explicitly demonstrate how the curriculum will develop information literacy skills
3. Include a graded writing component, which whenever possible is developmental
4. Must incorporate opportunities for students to critically read and analyze sophisticated, complex text, and to write intensively.
5. Must include assignments that apply information from within and across various "ways of knowing"

This course will directly address all of the Social and Behavioral Studies, all of the Skill and Applied Learning Objectives and all but two of the overall Foundational Studies goals (4 and 9). It will also address six of the ways-of-knowing in the Foundational Studies Program.

Specifically, you will be required to

- 1) Review how markets tend to serve the best interests of participants
- 2) Review what specified circumstances must exist for markets to succeed in maximizing societal welfare
- 3) Understand why health care and health insurance markets are often fail to meet the circumstances where they serve to maximize societal welfare
- 4) Review the importance of elasticity of demand and elasticity of supply when evaluating the incidence of taxes.
- 5) Examine the role of interrelationships between health and happiness and between health and economic well-being.
- 6) Appreciate the imperfect nature of health care in improving health, while understanding that health itself is determined by a combination of endowments at birth, behavioral choices, and random illness.
- 7) Understand that many questions in health economics have theoretically ambiguous answers and must be settled using empirical analyses.
- 8) Understand that physicians-hospital and physician-associations are very different market relationships than typical employer-employee relationships.
- 9) Understand the role of hospitals as the supplier of care and the purchasers of physician labor.
- 10) Understand the role of managed care in constraining health care costs and the problems it causes when implemented.
- 11) Understand the role of civil courts and juries in determining compensation for medical malpractice. Understand the costs to the system that occur when physicians practice loss-avoidance medicine.
- 12) Understand the role of Medicare (Parts A, B and D), Medicaid, SCHIPS and other government run health insurance systems.
- 13) Understand the financial situation with regard to Medicare part A's Trust Fund by critically evaluating the Report of the Medicare Trustees
- 14) Examine the goal of universal health insurance coverage, the moral and ethical considerations of it, the costs associated with achieving it, and the means by which other industrialized countries have achieved it.
- 15) Understand the role of regulation in achieving health and health insurance goals.
- 16) Understand the emerging and important role of the medical device industry in both improving health and escalating costs.
- 17) Examine the role of externalities (both positive and negative) in the health care industry (particularly in tobacco and alcohol use and inoculation choices)
- 18) Examine the role of prescription drugs in both improving health and escalating costs.

Grades: Mid-term Exams, 3 @ 15% each  
Final Exam 15%  
Paper 5% First Draft; 10% Final Draft  
Class Participation 5%

Scale: 100-85%	A
85-80%	A-
75-80%	B+
65-75%	B
60-65	B-
57.5-60%	C+
57.5-52.5%	C
50-52.5%	C-
47.5-50%	D+
42.4-47.5%	D
40-42.5%	D-

Attendance: Your attendance in class is desired and expected but your grade in class will be determined solely on the criteria outlined above.

This course assumes that you have had at least some microeconomics (either via Econ 100 or 201) and that you have an adequate understanding of junior high and high school algebra and high school geometry.

There will be 3 mid-term exams and a noncumulative final as well as a two-draft research or advocacy paper. The exams will be entirely essay and graph-based (IUDE LO 2, 3; S&AL LO 1,3,4,5).

The required paper can be a traditional MLA or APA formatted research paper of substantive length (about 5000 words or 10 pages; 12pt Times-Roman; 1.25 inch margins; not including separate works-cited or title pages) on a topic agreed to by the two of us by Oct 1. Alternatively, you may write an advocacy paper of the same length in which you make a case for a health care policy position of your choice. In either case a first draft of the paper is due by November 3<sup>rd</sup>. It should be your best attempt and will be graded separately from the final paper. The purpose of the first draft is to convince you to view writing as an iterative process whereby you receive constructive criticism and then respond to that criticism with substantive changes. The first draft will be returned the Tuesday after Thanksgiving and you will then have about 9 days to produce a final draft. I will collect the final draft of the paper on the last day of class. (IUDE LO 2,3; S&AL LO 1,2,3,4,5)

Class participation will also be graded. (This will be measured using participation slips. Each time you ask or answer a question of **substance** you will be given a participation slip (max 3 per day) and you will need to average one participation event per class period to get full credit. Partial credit for participation will be granted as the ratio of slips per class days.

## Rules

1) As long as you are not disturbing the learning process of your colleagues I do not care what you wear, eat, or drink in class. However, whatever goes in your mouth stays there for the duration of class. This includes tobacco spit.

**2) PDAs, Cell phones, electronic dictionaries, and pagers must be set to vibrate and must be kept away from sight during quizzes and tests. A cell phone (or a Bluetooth earpiece) in view during an exam or quiz will be viewed as a cheating mechanism during quiz and test time. YOU MAY NOT USE THESE DEVICES AS CALCULATORS.**

3) Sleeping in my class is only punishable by me picking exam questions on material that coincides with your eyes being shut.

## 4) Makeups

Tests: Makeup exams will be given when arranged **before** the day of the regularly scheduled exam for events that I believe are beyond your control and for documented exam-day illnesses (see the Student Health Center.) Makeup exams will be of regular difficulty and must be taken within one week of the scheduled exam. If you are granted a makeup for the exam, you lose your 1 CQ makeup.

## 5) Communication

I am happy to have you call any of my numbers as long as the time is appropriate. (I am awake from 6am to 10pm.) I am happy to receive emails and text messages as long as my response can be typed in fewer than 20 characters. Anything over that, and you should visit me in my office or call. All emails must come from your ISU email and have "Econ 100" as the first 8 characters of the subject line. (This is so I can easily sort them.) Text messages should be of the form: Dr. Guell, I am (your name) from your Econ 302 class. If I can't answer your question in fewer than 20 characters, I will respond with "C ME."

**"The Sycamore Standard"  
Indiana State University**

Students at Indiana State University are expected to accept certain personal responsibilities that constitute the "standard" for behavior in a community of scholars.

As a student at Indiana State University:

I will practice personal and academic integrity; I will commit my energies to the pursuit of truth, learning, and scholarship; I will foster an environment conducive to the personal and academic accomplishment of all students; I will avoid activities that promote bigotry or intolerance; I will choose associations and define my relationships with others based on respect for individual rights and human dignity; I will conduct my life as a student in a manner that brings honor to me and to the University Community; I will discourage actions or behaviors by others that are contrary to these standards.

Adopted by the Indiana State University Student Government Association April 17, 2002

**Policy on Academic Integrity**

"Indiana State University requires that all students read and support the **Policy on Academic Integrity**. Academic Integrity is a core value of our community of learners. Every member of the academic community (students, faculty, and staff) is expected to maintain high standards of integrity in all facets of work and study. The **Policy on Academic Integrity** describes appropriate academic conduct in research, writing, assessment, and ethics. The policy is found in the **Code of Student Conduct** and on the web at [www.indstate.edu/sjp/](http://www.indstate.edu/sjp/)."

<http://www.indstate.edu/academicintegrity/studentguide.pdf>

**AMERICAN WITH DISABILITES ACT STATEMENT**

"Indiana State University seeks to provide effective services and accommodation for qualified individuals with documented disabilities. If you need an accommodation because of a documented disability, you are required to register with Disability Support Services at the beginning of the semester. Contact the Director of Student Support Services. The telephone number is 237-2301 and the office is located in Gillum Hall, Room 202A. The Director will ensure that you receive all the additional help that Indiana State offers.

If you will require assistance during an emergency evacuation, notify your instructor immediately. Look for evacuation procedures posted in your classrooms."

**Laptop Usage**

While there will be no assignments or examinations for which the laptop will be used (in class), your use of a laptop is generally permitted as long as such usage remains within the bounds of the Code of Student Conduct and it conforms to the provisions of its use as laid out in this syllabus. There may be occasions where laptop usage is forbidden and if that occurs, failure to comply with this direction will be viewed as a violation of the Code of Student Conduct.

**Academic Freedom**

*Teachers are entitled to freedom in the classroom in discussing their subject, but they should be careful not to introduce into their teaching controversial matter which has no relation to their subject.*

The preceding comes from the American Association of University Professors statement on academic freedom. Though the entire statement<sup>1</sup> speaks to many issues, it is this portion on the conduct of the course that is most relevant. For the purpose of Foundational Studies courses this means that faculty have the right to conduct their class in a fashion they deem appropriate as long as the material presented meets the learning objectives laid out by the entire faculty.

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<sup>1</sup> <http://www.aaup.org/AAUP/pubsres/policydocs/contents/1940statement.htm>

### Schedule

Month	Tue	Topic	Thur	
Aug			27	Syllabus; Review of Supply and Demand
Sept	1	Review of Consumer and Producer Surplus	3	Review of Market Failure
	8	Review of Elasticity and Tax Incidence	10	Why Health Economics? Phelps Ch1
	15	Utility and Health; Phelps Ch2	17	The Health-Health Care Relationship; Phelps Ch3
	22	The Demand for Medical Care; Phelps Ch4	24	Exam I
	29	Empirical Student of Medical Care Demand Phelps Ch5		
Oct			1	The Physician and Medical Care Firms Phelps Ch6
	6	The Physician in the Market Phelps Ch 7	8	The Hospital as a Supplier of Medical Care; Phelps Ch 8
	13	Hospitals in the Market; Phelps Ch 9	15	Exam Questions and Paper Topics
	20	Exam II	22	Demand for Health Insurance; Phelps Ch 10
	27	Demand for Health Insurance; Phelps Ch 10	29	Health Insurance Supply and Managed Care Phelps Ch 11
Nov	3	Health Insurance Supply and Managed Care Phelps Ch 11 First Draft of Paper Due	5	Medical Malpractice Phelps Ch 13
	10	Medical Malpractice Phelps Ch 13	12	Exam III
	17	Government Provision of Health Insurance Phelps Ch 12	19	Medicare Trust Fund (Report of the Medicare Trustees)
	24	Universal Insurance Issues and International Comparisons of Health Care Systems; Phelps Ch16	26	Thanksgiving
Dec	1	Universal Insurance Issues and International Comparisons of Health Care Systems; Phelps Ch16	3	Managing the Market: Regulation and Technical Change in Health Care; Phelps Ch 15
	8	Externalities in Health and Medical Care Phelps Ch14	10	Prescription Drug Issues; Paper Due



### Foundational Studies Ways of Knowing and Learning Objectives

Topic	Ways of Knowing						FS LO	S&A LO	IUDE LO
	SBS	QL	E&SR	Hist	H&W	GP			
Review how markets tend to serve the best interests of participants	X	X					1,2,3	1,5	1
Review what specified circumstances must exist for markets to succeed in maximizing societal welfare	X		X				1,2,3	1,5	1
Understand why health care and health insurance markets are often fail to meet the circumstances where they serve to maximize societal welfare	X		X				1,2,3,5	1,5	1
Review the importance of elasticity of demand and elasticity of supply when evaluating the incidence of taxes.	X	X					1,2,3,5	1,5	1
Examine the role of interrelationships between health and happiness and between health and economic well-being.	X	X			X		1,2,3,9	1,5	1
Appreciate the imperfect nature of health care in improving health, while understanding that health itself is determined by a combination of endowments at birth, behavioral choices, and random illness.	X	X	X		X		1,2,3,9	1,5	1
Understand that many questions in health economics have theoretically ambiguous answers and must be settled using empirical analyses.	X	X					1,2,3	1,5	1
Understand that physicians-hospital and physician-associations are very different market relationships than typical employer-employee relationships.	X						1,2,3	1	1
Understand the role of hospitals as the supplier of care and the purchasers of physician labor.	X						1,2,3	1	1
Understand the role of managed care in constraining health care costs and the problems it causes when implemented.	X		X				1,2,3	1,5	1
Understand the role of civil courts and juries in determining compensation for medical malpractice. Understand the costs to the system the occur when physicians practice loss-avoidance medicine.	X	X					1,2,3	1,5	1
Understand the role of Medicare (Parts A, B and D), Medicaid, SCHIPS and other government run health insurance systems.	X			X			1,2,3,5	1,2,5	1
Understand the financial situation with regard to Medicare part A's Trust Fund by critically evaluating the Report of the Medicare Trustees	X	X		X			1,2,3,5	1,2,5	1
Examine the goal of universal health insurance coverage, the moral and ethical considerations of it, the costs associated with achieving it, and the means by which other industrialized countries have achieved it.	X	X		X		X	1,2,3,5,6,7,8	1,5	1
Understand the role of regulation in achieving health and health insurance goals.	X						1,2,3	1	1
Understand the emerging and important role of the medical device industry in both improving health and escalating costs.	X				X		1,2,3	1,5	1
Examine the role of externalities (both positive and negative) in the health care industry (particularly in tobacco and alcohol use and inoculation choices)	X						1,2,3	1	1
Examine the role of prescription drugs in both improving health and escalating costs.	X	X	X	X	X	X	1,2,3,5,6,7,8,9	1,2,5	1