



# NYU | STERN

## Health Economics

Fall 2019  
Mondays and Wednesdays  
11:00 am - 12:15 pm  
Office Hours: Wednesdays 2:00 pm - 4:00 pm

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### **Course Description**

In this course we will apply the tools of economic analysis to study how medical care is produced and financed, in both the private and public sectors. Our emphasis will be on the United States, with a brief treatment of health economics research in other countries and comparisons of health systems in other developed and less developed countries.

The material for the course will consist both of the description and discussion of problems in medical services financing and delivery, and analysis of how medical markets work. Fundamentally, we will use economics to evaluate why the health care market is different from conventional markets and what, if anything, economic analysis can tell us about these differences. This will include studying such matters as why health insurance exists, whether hospital competition leads to efficient allocation of resources and production, the role of the physician in patient choice, and the role for government and market interventions in correcting potential inefficiencies.

This is an economics course. The approach taken and the literature reviewed will be primarily by and for economists. This means that charts, graphs, and algebra will be common. Through the example of the health care sector, we will examine many of the important issues in economics more generally, including decision-making under uncertainty, principal-agent theory, moral hazard, and imperfect competition.

### **Recommended Readings**

The two recommended texts are:

- *Health Economics*, by Bhattacharya, Hyde, and Tu, Palgrave Macmillan, 2013. (BHT)
- *Your Money or Your Life*, by David M Cutler, Oxford University Press, 2005.

The schedule below also contains additional recommended readings to supplement these texts.

## **Course Assessment**

Assessment is based on the following items, with weights noted:

Midterm	35%
Final	40%
Group presentation	15%
Class participation	10%

## **Course Website**

I will maintain a website for the course using NYU Classes. The website will include announcements and downloadable files with the class lectures.

## **Classroom Norms**

Laptops, cell phones, Smartphones and other electronic devices are a disturbance to both students and professors. All electronic devices must be turned off prior to the start of each class meeting.

## **Class participation**

I strongly encourage students to participate in class by answering questions that I pose and by posing questions of their own. In the evaluation, quality is more important than quantity. In addition, the evaluation of class participation could be affected adversely by lack of attendance or creating negative classroom externalities (see Classroom Norms above).

## **Ethical Guidelines**

All students are expected to follow the Stern Code of Conduct:  
(<http://www.stern.nyu.edu/uc/codeofconduct>)

A student's responsibilities include, but are not limited to, the following:

1. A duty to acknowledge the work and efforts of others when submitting work as one's own. Ideas, data, direct quotations, paraphrasing, creative expression, or any other incorporation of the work of others must be clearly referenced.
2. A duty to exercise the utmost integrity when preparing for and completing examinations, including an obligation to report any observed violations.

## **Students with Disabilities**

Students whose class performance may be affected due to a disability should notify me immediately so that arrangements can be made in consultation with the Henry and Lucy Moses Center for Students with Disabilities <http://www.nyu.edu/csd/> to accommodate their needs.

## **Course Schedule and Readings (to be completed before class)**

### **I. Introduction**

#### **1. Wednesday, September 4: Introduction to Health Economics**

BHT, Ch. 1

#### **2. Monday, September 9: Are health care markets unique? An economist's view**

BHT, Ch. 1

D. Cutler, *Your Money or Your Life*, Chapter 2: "Pricing the Priceless."

Garber and Skinner (2008), "Is American Health Care Uniquely Inefficient?" *Journal of Economic Perspectives*, 22(4): 27-50.

Arrow (1963), "Uncertainty and the Welfare Economics of Medical Care," *American Economic Review*, 53(5): 941-973.

### **II. Health Demand and Health Production**

#### **3. Wednesday, September 11: Demand for Health Care, I**

BHT, Ch. 2.

D. Cutler, *Your Money or Your Life*, Chapters 3-5.

#### **4. Monday, September 16: Demand for Health Care, II**

BHT, Ch. 2.

Aron-Dine, Einav, and Finkelstein (2013), 'The Rand Health Insurance Experiment, Three Decades Later,' *Journal of Economic Perspectives*, 27(1), pp. 197-222.

#### **5. Wednesday, September 18: Human Capital and Health, I**

BHT, Ch. 3

Grossman (1972), "On the Concept of Health Capital and the Demand for Health," *Journal of Political Economy*, 80(2): 223-255.

#### **6. Monday, September 23: Human Capital and Health, II**

BHT, Ch. 3

#### **7. Wednesday, September 25: Technological Change and Health, I**

BHT, Ch. 13

Newhouse (1992) "Medical Care Costs: How Much Welfare Loss?" *Journal of Economic Perspectives*, 6(3): 3-21.

**8. Monday, September 30: Technological Change and Health, II**

Cutler and M. McClellan (2001), "Is Technological Change Worth It?" *Health Affairs*, Sept/Oct.

**III. Health Insurance: Theory**

**9. Wednesday, October 2: Risk Aversion, Health Insurance, and Moral Hazard**

BHT, Ch. 7, 11

M. Gladwell, "The Moral Hazard Myth," *The New Yorker*, August 29, 2005.

Cutler and Zeckhauser (1999), "The Anatomy of Health Insurance," *NBER Working Paper* #7176.

Gaynor, Haas-Wilson, and Vogt (2000), "Are Invisible Hands Good Hands? Moral Hazard, Competition, and the Second-Best in Health Care Markets," *Journal of Political Economy*, 108(5): 992-1005.

**10. Monday, October 7: Adverse Selection and the Lemons Problem**

BHT, Ch. 8-9

Akerlof (1970), "The Market for "Lemons": Quality Uncertainty and the Market Mechanism," *Quarterly Journal of Economics*, 84(3): 488-500.

**11. Wednesday, October 9: Rothschild-Stiglitz Model, I**

BHT, Ch. 9.

Rothschild and Stiglitz (1976), "Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information," *Quarterly Journal of Economics*, 90(4):629-649.

**12. Tuesday, October 15: Rothschild-Stiglitz Model, II**

BHT, Ch. 9.

Cochrane (1995), "Time-Consistent Health Insurance," *Journal of Political Economy*, 103(3):445-473.

**IV. Health Insurance: Provision**

**13. Wednesday, October 16: The American Model, I**

BHT, Ch. 15, 18.

**14. Monday, October 21: The American Model, II**

Summers, "Some Simple Economics of Mandated Benefits," *American Economic Review*, 79(2), May 1989, pp. 177-183.

**15. Wednesday, October 23: Midterm Review Lecture**

**16. Monday, October 28: Midterm Exam**

**17. Wednesday, October 30: The American Model, III**

BHT, Ch. 18.

D. Cutler, *Your Money or Your Life*, Ch. 6.

Cutler and Gruber, "Medicaid and Private Insurance: Evidence and Implications," *Health Affairs* 16(1): 194-200. (Jan/Feb 1997).

Frank and Zeckhauser, "Health Insurance Exchanges: Making the Markets Work," *New England Journal of Medicine*, 2009, 361, 1135-1137.

**18. Monday, November 4: Bismarckian and Beveridgian Models**

BHT, Ch. 16-17.

**19. Wednesday, November 6: Hospitals, I**

BHT, Ch. 6.

**20. Monday, November 11: Hospitals, II**

Horwitz (2005), "Making Profits and Providing Care: Comparing Nonprofit, For-Profit, And Government Hospitals," *Health Affairs*, 24(3): 790-801.

**21. Wednesday, November 13: Health Care Labor Force, I**

BHT, Ch. 5.

**22. Monday, November 18: Health Care Labor Force, II**

BHT, Ch. 5.

**23. Wednesday, November 20: Pharmaceuticals**

BHT, Ch. 12

Scherer (2004), "The Pharmaceutical Industry: Prices and Progress," *New England Journal of Medicine*, 351(9): 927-32.

Berndt (2002), "Pharmaceuticals in US Healthcare: Determinants of Quantity and

Price," *Journal of Economic Perspectives*, 16(4): 45-66.

**V. Topics in Health Policy**

**24. Monday, November 25: Information and Quality in Health Care, I**

Doyle, Ewer, and Wagner (2010), "Returns to Physician Human Capital: Analyzing Patients Randomized to Physician Teams," *Journal of Health Economics*, 29: 866-882.

Kessler and McClellan (1996), "Do Doctors Practice Defensive Medicine?" *Quarterly Journal of Economics*, 111(2): 353-390.

**No class on Wednesday, November 27**

**25. Monday, December 2: Information and Quality in Health Care, II**

Cutler, Huckman and Landrum (2004), "The Role of Information in Medical Markets: An Analysis of Publicly Reported Outcomes in Cardiac Surgery," *American Economic Review*, 94(2): 342-346.

**26. Wednesday, December 4: Group Presentations**

**27. Monday, December 9: Group Presentations**

**28. Wednesday, December 11: Group Presentations**

**Final Exam: Monday, December 16, 10 am to 11.50 am in our usual classroom.**