

**University of Miami  
Department of Economics  
School of Business Administration**

**ECO 386, Section Q – Health Economics**

**Spring 2016**

Professor: Michael T. French, Ph.D.  
Time: Tuesday and Thursday, 12:30pm-1:45pm  
Classroom: LC 192  
Office: Merrick, Room 121F and Jenkins, Room 417K  
Office Hours: Wednesday, 2:00pm-4:00pm or by appointment  
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**Prerequisites**

ECO 211, ECO 302, familiarity/experience with algebra and graphical analysis, and/or permission of the instructor.

**Course Goals**

All societies must deal with the allocation of scarce resources. In our society, primary reliance is placed on markets and prices. This course will introduce students to the application of economic theory to health care markets. Some of the major topics include the production of and demand for health, demand for medical care, uncertainty and insurance, models of physician and hospital behavior, externalities and market failure, the role of government in health and medical care, and economic evaluation of health care services and interventions. Health economics concepts will be linked to current policy debates at the state and federal levels. We will use numerous real-world issues and case studies to demonstrate decision-making techniques for health care organizations and consumers.

**Learning Objectives**

Students will become familiar with (1) the principles of opportunity cost and elasticity applied to medical care markets, (2) supply and demand for health care, (3) imperfect information and physician-induced demand, (4) moral hazard and adverse selection in insurance markets, and (5) evaluation of health care programs. Students will also learn how to apply these techniques to current issues in health economics and policy such as (i) long-term care, (ii) the pharmaceutical industry, (iii) the market for nurses and other health care workers, (iv) physician and hospital performance, (v) government intervention, and (vi) public health promotion. The process of decision making will be introduced and discussed through case studies such as (a) efficient hiring of health care workers, (b) economies of scale in the delivery of health services, (c) government regulation of poor health decisions, (d) health care and insurance reform via the ACA, and (e) cost-benefit analysis of brief physician interventions.

**Grading**

The course grade will be based on several short quizzes and essays (some announced, others not) (15%), a mid-term exam (25%), a final exam (35%), and a group final report and presentation (25%). The group report will be due at the end of the semester. I will suggest approximately 15 project topics and then each group will select a topic on a first-come-first-served basis. Any group is free to select a topic of their own choosing and then have it approved by the instructor prior to initiation of the report. The final report (10 double-spaced pages of text) must address a current health economics topic. Students should rely on journal articles, textbooks, newspaper/magazine articles, and other reference materials, but no assistance is permitted from classmates outside your group, instructors, friends, etc. In addition, students are encouraged to utilize the Writing Center and submit their draft reports through SafeAssign, which will detect possible plagiarism. Final reports will be submitted to me through Blackboard (Assignments tab) via SafeAssign to ensure that any previous issues are resolved. Any late submissions will be assessed a penalty of 2 points per hour up to a maximum of 10 points per day. The final exam will be completed at the pre-assigned day and time during the final exam period. The final exam will be comprehensive and consist of problems similar to the ones assigned for homework as well as the mid-term exam. Every student must take the final exam during the assigned day and time. I do not offer make-up mid-term or final exams nor extra credit assignments at the end of the semester.

### **Group Final Report**

The primary objective of the group final report is to provide each student with hands-on experience in applying the concepts and methods of health economics research to a current issue. Students will be exposed to a real-world research environment where skills such as dividing workloads, accepting responsibilities, coordinating individual efforts, communicating effectively, resolution of conflict, clear and persuasive writing, and professional presentations are immensely valuable. In addition, the group final report will provide students with an opportunity to integrate and apply the material learned in this and other economics classes in the development of a research strategy. The specific requirements of the group final report will be announced early in the semester and posted on Blackboard.

You will work on this assignment in groups of 4 people. It is best to communicate with your classmates and form groups as soon as possible. Once a group of 4 people is established, please notify me in writing so that I can record the information. At the end of the drop/add period (early February), I will randomly assign individuals who are not part of an already established group. Like collaborative activities you will encounter later in your professional career, group projects in school can sometimes be a frustrating experience. It is often difficult to pick convenient times for everyone to meet. Group members have different topical interests and sometimes feel that the division of labor is not equitable. As frustrating as this may be, it is important for each of you to learn how to manage group work. It may be helpful to elect one individual in the group as a contact person. Make sure that you exchange email addresses and phone numbers with your group members so that you can contact them, and they can contact you, outside of class.

Whenever possible, all problems arising within the group related to communication and relative contributions of the group members are to be handled internally by the group. This is an essential part of the group project experience. You will, however, have an opportunity to evaluate your group members at the end of the semester based on the quality and quantity of their contributions. Everyone's grade will be affected by these evaluations. Do not allow others to do a large or the

main part of the project. Be involved from the beginning of the project until the end. Seventy-five percent of the group project grade will be determined by the instructor and assigned equally to all group members. The other group members will anonymously assess and record the remainder of each student's grade.

The reference materials for this group project can be obtained from a variety of existing sources such as journal articles, books, newspapers, magazines, etc. Avoid Internet materials that are not sponsored by a reputable source. All supporting materials must be cited correctly in the text and referenced appropriately at the end of the report (*Chicago Style* preferred; [http://www.chicagomanualofstyle.org/tools\\_citationguide.html](http://www.chicagomanualofstyle.org/tools_citationguide.html)). Each group will deliver a 12-minute presentation of their project during class time at the end of the semester.

This project must include the following statement signed by all group members: *I have actively participated in the preparation of this assignment and I attest to its integrity.*

### **Attendance Policy**

Students are expected to arrive in the classroom at least 5 minutes before the start of each class and to attend all sessions. Unexcused late arrivals or absences will result in a lower final grade. Unavoidable absences (medical emergencies, family emergencies, athletic events, etc.) should be confirmed with the instructor no later than one day prior to the class time. All cell phones, computers, and other electronic devices must be TURNED OFF during class time unless prior approval is obtained from the instructor. Emailing, texting, Facebooking, tweeting, Skyping, electronic surfing, and other forms of non-classroom communication are strictly forbidden. Each student is entitled to one warning and thereafter will receive no credit on the next quiz.

### **Honor Code**

I expect you to abide by the University of Miami Undergraduate Honor Code. You can find it on the web ([https://umshare.miami.edu/web/wda/deanstudents/pdf/undergrad\\_honorcode.pdf](https://umshare.miami.edu/web/wda/deanstudents/pdf/undergrad_honorcode.pdf)).

### **Testing Accommodations**

Anyone using the testing services of the Office of Disability Services ([http://www.miami.edu/index.php/academic\\_resource\\_center/disability\\_services/](http://www.miami.edu/index.php/academic_resource_center/disability_services/)) must schedule appointments at least 1 week prior to the exam, and preferably earlier. The spaces fill up quickly.

### **Course Materials**

There are no required textbooks for this course. However, the following textbooks are highly recommended:

Bhattacharya, J., T. Hyde, and P. Tu. 2014. *Health Economics*, (First Edition), New York: Palgrave Macmillan.

Drummond, M. F., M. J. Sculpher, G. W. Torrance, B. J. O'Brien, and G. L. Stoddart. 2005. *Methods for the Economic Evaluation of Health Care Programmes*, (Third Edition), New York: Oxford University Press.

Thaler, R.H., and C.R. Sunstein. 2009. *Nudge: Improving Decisions About Health, Wealth, and Happiness* (Revised and Expanded Edition). New York, NY: Penguin Books.

The optional books for the course are:

Getzen, Thomas E. 2013. *Health Economics and Financing*, 5<sup>th</sup> Edition, New York, New York: John Wiley and Sons, Inc.

Sloan, F.A., and C-R. Hsieh. 2012. *Health Economics* (First Edition). Cambridge, MA: The MIT Press.

Folland, Sherman, Allen C. Goodman, and Miron Stano. 2013. *The Economics of Health and Health Care* (Seventh Edition), Pearson.

Feldstein, Paul J. 2012. *Health Care Economics*. 7<sup>th</sup> Edition, Clifton Park, NY: Delmar Cengage Learning.

Ariely, D. 2010. *Predictably Irrational* (Revised and Expanded Edition). Harper Perennial.

Ariely, D. 2011. *The Upside of Irrationality: The Unexpected Benefits of Defying Logic at Work and at Home* (Revised and Expanded Edition). Harper Perennial.

Ariely, D. 2013. *The Honest Truth About Dishonesty: How We Lie to Everyone--Especially Ourselves* (Revised and Expanded Edition). Harper Perennial.

Ariely, D. 2015. *Irrationally Yours: On Missing Socks, Pick-up Lines, and Other Existential Puzzles*. Harper Perennial.

Levitt, S.D., and Dubner, S.J. 2009. *Freakonomics: A Rogue Economist Explores the Hidden Side of Everything*. William Morrow.

I will regularly post PowerPoint lecture notes, research manuscripts, and recent journal, magazine, and newspaper articles on Blackboard. When appropriate, sometimes these materials will be emailed to students as attachments. Please read the posted or emailed materials related to each lecture before class that day.

Students are expected to have a familiarity with economics concepts and principles prior to taking this course. Although it would be helpful, students are not expected to use calculus or econometrics in this course. However, students are expected to have an understanding of basic algebra and graphical analysis, which will be used often throughout the class.

### **Class Format and Attendance**

The class format will be designed to stimulate participation from all students. I encourage questions, comments, and debate. The quality of the class is a direct function of your preparation and discussion. Students are expected to be punctual for all classes (i.e., arrive in the classroom at least 5 minutes before the start of each class), and attend every class. Short quizzes will be administered at the start of some sessions. Unexcused late arrivals or absences on a quiz day will result in a zero grade. Unavoidable absences (illness, family emergencies, athletic events, etc.) should be confirmed with the instructor no later than one day prior to the class time. It will be very difficult to obtain a respectable grade if you are not able to attend at least 80 percent of the contact time.

### **Professor Bio**

Dr. French ([www.mtfrench.com](http://www.mtfrench.com)) is a health economist and Professor (joint tenure) in the Department of Sociology ([www.as.miami.edu/sociology/people/faculty/michael-t-french](http://www.as.miami.edu/sociology/people/faculty/michael-t-french)) and Department of Health Sector Management and Policy at the University of Miami, with secondary appointments in the Department of Economics and Department of Public Health Sciences. He is also Director of the Health Economics Research Group ([www.miami.edu/herg](http://www.miami.edu/herg)) in the College of Arts and Sciences, Research Director of the Health Sector Management and Policy Program in the School of Business Administration (<http://www.bus.miami.edu/undergraduate-programs/curriculum/majors/health-sector/index.html>), and a Senior Fellow of the Center for Health Sector Management and Policy (<http://www.bus.miami.edu/explore-the-school/health-programs/health-center/>). His research interests and experience includes health economics, health policy, program evaluation, substance abuse research, alternative health care delivery systems, pharmaco-economics, human resource economics, and the economics of crime. He has been principal investigator or project leader on numerous research grants with the National Institutes of Health, the Robert Wood Johnson Foundation, and several state agencies. He is currently editor of the *Journal of Mental Health Policy and Economics*; on the editorial boards for *Health Services Research, Evaluation and Program Planning*, and *Journal of Substance Abuse Treatment*; and serves on several research advisory boards for universities, national and international companies, government agencies, and health care organizations. Dr. French has published over 170 peer-reviewed scholarly articles in a variety of multidisciplinary professional journals including *Addiction, Addictive Behaviors, Alcoholism: Clinical and Experimental Research, American Journal of Drug and Alcohol Abuse, American Journal of Health Promotion, American Journal of Public Health, Annals of Emergency Medicine, Applied Economics, Benefits Quarterly, Cancer Practice, Contemporary Economic Policy, Criminology, Drug and Alcohol Dependence, Eastern Economic Journal, Economic Inquiry, Economics of Education Review, Economics and Human Biology, Employee Assistance Quarterly, Evaluation and the Health Professions, Evaluation and Program Planning, Evaluation Review, Health Economics, Health Services Research, Implementation Science, Industrial Marketing Management, Industrial Relations, Journal of Addictive Diseases, Journal of Adolescent Health, Journal of the American Board of Family Medicine, Journal of Behavioral Health Services and Research, Journal of Employee Assistance Research, Journal of Experimental Criminology, Journal of Health Economics, Journal of Health and Social Behavior, Journal of Health and Social Policy, Journal of Human Resources, Journal of Internal Medicine, Journal of Maintenance in the Addictions, Journal of Mental Health Policy and Economics, Journal of Occupational Health Psychology, Journal of Occupational Medicine, Journal of Offender Rehabilitation, Journal of Public Health Policy, Journal of Quantitative Criminology, Journal of Research on Adolescence, Journal of Risk and Uncertainty, Journal of Studies on Alcohol and Drugs, Journal of Substance Abuse Treatment, Labour Economics, Justice Quarterly, LABOUR: Review of Labour Economics and Industrial Relations, Law and Policy, Medical Care, Medical Care Research and Review, Monthly Labor Review, Population Health Management, Public Health Reports, Risk Analysis, Social Science and Medicine, Social Science Quarterly, Social Science Research, Sociological Inquiry, Substance Abuse,*

*Substance Use and Misuse, Southern Economic Journal, Telemedicine and e-Health, The Gerontologist, and The Prison Journal.*

## Course Schedule

- I. Introduction to Health Economics and Review of Economic Principles Chapter 1 (BHT)
- A. What is health economics?
  - B. Production of health
  - C. Opportunity cost
  - D. Scarcity
  - E. Health insurance
  - F. Market failure and government intervention
  - G. Economic and public policy
- II. Demand for Health and Medical Care Chapters 2, 3, & 4 (BHT)
- A. Health production functions
  - B. Demand for health
  - C. Health behaviors
  - D. Demand for medical care
  - E. Price
  - F. Price discrimination
  - G. Physician-induced demand
  - H. Empirical studies of demand
- III. Patients and Health Insurance Chapters 7, 8, 9, 10, & 11 (BHT)
- A. Risk
  - B. Third-party payment
  - C. Risk aversion
  - D. Adverse selection
  - E. Moral hazard
  - F. Health insurance and labor markets
  - G. Premiums and returns
  - H. Government regulation
  - I. Managed care
  - J. Affordable Care Act (ACA) or “Obamacare”
- IV. Libertarian Paternalism, Choice Architecture, and Health Insurance Introduction, Chapters 1-5, 14 (IS)
- A. Choice architecture
  - B. Libertarian paternalism
  - C. The “nudge”
  - D. Humans and Econs
  - E. Assumptions and misconceptions
  - F. Choosing the correct deductible
  - G. Waiving the right to sue for malpractice (default option)
  - H. Scheduled payouts for predefined medical injuries
- V. Health Care Providers (Physicians) Chapter 5 (BHT)
- A. Physician supply
  - B. Physician revenues
  - C. Physician payments

- D. Physician incomes
- E. Physician costs
- F. Physician decision-making
- G. Asymmetric information (principal agent problem)
- H. Licensure

**MID-TERM EXAM** (March 17)

- VI. Health Care Providers (Hospitals) Chapter 6 (BHT)
  - A. Development of the modern hospital
  - B. Hospital revenues
  - C. Hospital costs
  - D. Hospital ownership and performance
  - E. Hospital decision-making
  - F. Cost shifting
  - G. Hospital competition
  - H. Hospital regulation
  
- VII. Health Care Providers (Nurses and Long-Term Care)
  - A. Supply of nurses
  - B. Nurses in the production of hospital services
  - C. Role of Medicaid in LTC
  - D. Certificate of Need (CON)
  - E. Substitution
  - F. Retirement communities
  - G. Role of government
  - H. Privatizing Social Security
  
- VIII. Pharmaceuticals Chapter 12 (BHT)
  - A. Prices and reimbursement
  - B. Research and development
  - C. Generic drugs
  - D. Advertising
  - E. Pharmaco-economics
  - F. Structure and competition
  - G. Medicare Part D
  
- IV. Health Policy Chapters 15, 16, 17, 18 & 19 (BHT)  
Chapter 11 (TS)
  - A. Public versus private systems
  - B. Population health
  - C. Market failure
  - D. Medicaid and Medicare
  - E. Regulation
  - F. International examples
  - G. How to increase organ donations
  
- IX. Economic Evaluation of Health Care Chapters 14 (BHT); Chapters 2-7 (DSTOS)
  - A. Measuring costs

- B. Measuring benefits
- C. Maximizing social welfare
- D. Cost analysis
- E. Benefits analysis
- F. Quality-adjusted life-years (QALYs)
- G. Cost-effectiveness analysis (CEA)
- H. Cost-benefit analysis (CBA)
- I. Discounting
- J. Perspectives

X. Public Goods and Public Health

Chapters **20** & **21** (BHT)

- A. What is a public good?
- B. Pure public goods
- C. Information asymmetries
- D. Private vs. social decisions
- E. Disease externalities
- F. Public health vs. morality
- G. Harm reduction strategies
- H. Individual vs. societal welfare
- I. Obesity epidemic

**GROUP FINAL REPORT** (Due date: April 19 at 12:00pm; any guidance from the professor must be obtained prior to April 12)

**FINAL EXAM** (Wednesday, May 4 from 11:00am to 1:30pm)