

THE KRIEGER SCHOOL OF ARTS AND SCIENCES
The Johns Hopkins University
ECONOMICS DEPARTMENT
ECON 180.289: The Economics of Health
FALL 2021 Monday 3:30-5:50

Synopsis In health systems markets cannot function properly. They will systematically waste money and fail to protect people from shared risks like COVID-19, obesity, heart disease and malaria.

Studying health economics will make you a better economist as you examine market failures and what can be done about them. Standard assumptions about rational behavior and competitive equilibrium are violated all the time in health economics. The relevant economics developed during this course is drawn from public economics, game theory, and microeconomic models of consumers and firms.

Studying health economics can make you a better citizen. In health care, heterogeneous citizens have to agree as a group on policies that affect all. Doing this fairly and efficiently is a major test of the democratic process. This is always difficult, and more difficult when people are polarized.

Currently, US health reform has become a major arena to observe American heterogeneity and political polarization. The same is true around the world and we will discuss health economics for both rich and poor countries.

Goals: The goal is to apply economics makes to understand and improve health and health policy.

Objectives: UPON COMPLETING THIS COURSE STUDENTS WILL BE ABLE TO

- 1) Diagnose basic pathologies of failed health systems such as: “adverse selection”, “insurance death spirals”, “medical arms races”, “moral hazard”, “cherry-picking”, “medical errors”, and “Baumol’s disease”.
- 2) Apply economic theories to explain the health of individuals and the behavior of consumers physicians, hospitals, and firms in health care markets
- 3) Be puzzled by: the preoccupation of health policy makers with markets for medical commodities and services when public health investments and social institutions do more to make us healthy
- 4) Identify the principal features of medical care that distinguish it from other marketed commodities.
- 5) Critically evaluate an economic argument in favor of or opposed to government intervention in a health system.

LOGISTICS

Prerequisite: 180.102 Microecon or similar course

Credits: 3 credits

Website: blackboard.jhu.edu

Instructor: David Bishai, MD, MPH, PhD

Adjunct Professor, Economics Department and Bloomberg School of Public Health
Health Officer Harford County, MD 120 South Hays St. Bel Air, MD
david.bishai@maryland.gov

Office Location: NA

Teaching Assistants:

TA Name	TA Email	Zoom/Skype	Office Hours
		Zoom	Weds 6-7pm EST
		Zoom	Tues 4-5 pm EST
		Zoom	Tues 10-11am EST

Office Hours: Dr. Bishai Mondays 2:00 to 3:00 EST

Piazza Site for Discussion: If you have a general interest content question for TA or Professor. Do not email it. Send it to Piazza and we will answer it there.

Lectures Recorded and Posted on Blackboard watch lectures, take notes prior to each class

Live Discussion Mondays from 3:30 to 5:00 pm EST

Structure: Hybrid with Recorded Lecture and Live Discussions Monday 3:30pm to 5:00pm.

Prerequisite: Microeconomics 180.102 or equivalent

Homework: There are 10 homework assignments. Due dates listed on page 5 and on blackboard

Lateness Policy: Unexcused late homeworks deducts 10% points per day.

Midterm: There will be an open-book midterm held on the date below. It will be consist of multiple choice and short answer questions.

Grading: 30% Midterm 20% Homework and classwork 50% Final Examination

Academic Integrity: It is OK to work together on homework and classwork, BUT the words in your answers should not be the same. You cannot work together on exams. Finding and using extant solution sets to complete assignments violates the academic integrity code and will be punished as severely as possible.

LECTURE TOPICS AND ASSIGNED READINGS:

Page numbers in Rice Unruh IV refer to 3rd and 4th Edition [link to order text book](#)

Other readings are on Blackboard

August 30 Health and Health Systems I (David Bishai)

Lecture 0 Intro to the Course

Lecture 1A Intro to Health Systems

Lecture 1B Economic Models and Systems

Rice Unruh III Chapters 1 and 11 OR Rice Unruh IV Chapter 1 and 13

- *Grossman, Gregory. (1967) Criteria and Values in *Economic Systems* pp 1-14.
Englewood Cliffs, NJ: Prentice-Hall
- *Grossman, Gregory. (1967). The System: Institutions and Problems. In *Economic Systems*, pp. 15-35. Englewood Cliffs, NJ: Prentice-Hall.
(*Sorry this reading is so old, but there is nothing else like Gregory Grossman.*)

September 6 Labor Day Holiday

September 13 Role of government in health systems (David Bishai)

Rice Unruh III Chapter 3 pp 47-54 Rice Unruh IV Chapter 3 pp 47-55

September 20 Demand for Health Insurance (David Bishai)

Rice Unruh III Chapter 4 pp 76-116 Rice Unruh IV Chapter 4 pp 86-138

September 27 Demand for Health (David Bishai)

Rice Unruh III Chapter 4 pp 57-76 Rice Unruh IV Go to Blackboard to read Rice Unruh III pp 57-76

- *Grossman, M (1972) On the concept of health capital and the demand for health”
Journal of Political Economy 80(2) 223-255.
(*Grossman 72 is way too complicated for most beginning students, but it is the bedrock of all of health economics. Come to lecture to get focused on the takeaway points.*)

October 4 Adverse Selection (David Bishai—Oct 5 is also Dr. Bishai’s Birthday)

*Cutler, D. and R. Zeckhauser (1998). Adverse Selection in Health Insurance.
Frontiers in Health Policy Research. A. Garber. Cambridge, MIT Press. 1

October 11 Models of Capitation & Prospectivity (David Bishai)

*McGuire, T. G. (1989). "Combining Demand-and Supply Side Cost Sharing: The Case of Inpatient Mental Health Care." Inquiry **26**: 292-303

TAKE-HOME OPEN BOOK MIDTERM RELEASED OCT 14

Due 10/15 at 11:59pm. Expect the exam to take less than 90 min.

October 18 Health Insurance and Health Costs in USA (David Bishai)

Rice Unruh III Chapter 6 pp 161-177 Rice Unruh IV Chapter 6 pp 181-205

October 25 Market Power (David Bishai)

Rice Unruh III Chapter 6 pp 177-195 Rice Unruh IV Chapter 6 pp 205-219

November 1 Health Labor Supply (David Bishai)

Rice Unruh III Chapter 8 pp 237-288 Rice Unruh IV Chapter 8 pp 283-344

November 8 Quality of Care (David Bishai)

Rice Unruh III Chapter 7 pp 206-214 Rice Unruh IV Chapter 6 pp 194-205

November 8 Profit Motive (Pharmaceuticals/Vaccines) (David Bishai)

Rice Unruh III Chapter 7 pp 216-228 Rice Unruh IV Chapter 7 pp 252-264

*Berndt, E. R. (2002). "Pharmaceuticals in U.S. Health Care: Determinants of Quantity and Price." Journal of Economic Perspectives **16**(4): 45-66.

*Kremer, M. (2002). "Pharmaceuticals in the Developing World." Journal of Economic Perspectives **16**(4): 67-90.

November 15 Economic Evaluation and Health Equity (David Bishai)

Rice Unruh IV Ch 11 pp 413-448

Rice Unruh III Chapter 9 pp 291-316 Rice Unruh IV Chapter 9 pp 345-378

November 22 THANKSGIVING BREAK NO CLASS

November 29 Evidence-Based Health Economics

Deaton, Angus *Randomization in the Tropics Revisited: A Theme and Eleven Variations* National Bureau of Economic Research Working Paper 27600

December 6 Applying Health Economics to Current Topics

December 10 TAKE HOME OPEN BOOK FINAL EXAM

Exam is cumulative on all readings and lectures from Sept to Dec

Week	Lecture Topics*	Date	Rice Reading	Additional Required Reading	New Work	Due Dates	Grader
1	Intro Health and Health Systems	30 Aug	Ch1 pp3-6 Ch 11 pp371-373	(Grossman, 1967)	<i>HW1</i> (SW)	HW 1 Due on 15 Sep	
2	Role of government in health systems	13-Sep	Ch 3 pp 47-54		<i>HW2</i> (SW)	<i>HW 2</i> Due on 22 Sep	
3	Demand for Health Insurance	20-Sep	Ch 4 pp 76-116				
4	Demand for Health	27-Sep	Ch 4 till page 75	(Grossman 1972) Do not read for mastery	<i>HW3</i> (SW)	HW 3 Due on 6 Oct	
5	Adverse Selection	4-Oct		(Cutler and Zeckhauser 1998)	<i>HW4 HW5</i> (AL)	HW 4 & 5 Due on 13 Oct	
6	Capitation and Prospectivity	11 Oct		(McGuire 1989)	<i>HW6</i> (AL)	<i>HW 6</i> Due 20 Oct	
6	MID TERM EXAM	14-Oct		TAKE HOME OPEN BOOK			
7	Health Insurance and Health Costs in Practice in USA	18-Oct	Ch 10 pp 317-337 Ch 6 pp 161-177		Blog Post	Blog Post due 27 Oct	DB
8	Market Power (Hospitals)	25-Oct	Ch 6 pp 177-195		<i>HW7</i> (AL)	<i>HW 7</i> Due 3 Nov	
9	Health Labor Supply	1-Nov	Ch 8 pp 237-288		HW8		
9	Health Care Quality	1-Nov	Ch 7 pp 206-214			<i>HW 8</i> Due on 10 Nov	
10	Profit Motive (Pharmaceuticals)	8-Nov	Ch 7 p 216- 228	(Berndt 2002; Kremer 2002)	HW9 (JK)	<i>HW 9</i> Due on 17 Nov	
11	Economic Evaluation	15 Nov	Ch 11 pp 413-448		<i>HW10</i> (JK)	<i>HW10</i> Due Dec 1	
11	Health Equity	15-Nov	Ch 9 pp 291-316				
12	Evidence-based Health Econ	29-Nov		(Deaton, 2020)			
13	Applying Health Econ to COVID	6-Dec					
FINAL	Final Exam			TAKE HOME OPEN BOOK			

Textbooks:

Rice, Thomas and Lynn Unruh *The Economics of Health Reconsidered* Fourth EDITION
Health Administration Press Chicago, IL 2008. ISBN **9781567933284**
DO NOT BUY THE 1st or 2nd EDITION!!!

Video

Panopto recordings and other video links are on Blackboard

Additional Readings Posted on Course Website

- Berndt, E. R. (2002). "Pharmaceuticals in U.S. Health Care: Determinants of Quantity and Price." *Journal of Economic Perspectives* **16**(4): 45-66.
- Cutler, D. and R. Zeckhauser (1998). Adverse Selection in Health Insurance. *Frontiers in Health Policy Research*. A. Garber. Cambridge, MIT Press. **1**.
- Deaton, A [Randomization in the Tropics](#) NBER Working Paper 27600
- Grossman, G. (1967). The System: Institutions and Problems. *Economic Systems*. Englewood Cliffs, NJ, Prentice-Hall: 15-35
- Grossman M. (1972) On the Concept of Health Capital and the Demand for Health. *Journal of Political Economy*;80:223-55.
- Kremer, M. (2002). "Pharmaceuticals and the developing world." *J Econ Perspect* **16**(4): 67-90.
- McGuire, T. G. (1989). "Combining Demand-and Supply Side Cost Sharing: The Case of Inpatient Mental Health Care." *Inquiry* **26**: 292-303.
- [Ostrum, E.](#) "How types of goods and property rights jointly affect collective action" *J. Thro Politics* **15**: (2003); 239-270