

Economics of Healthcare (PPHA 48050 / ECON 37710)

Syllabus¹

Prof. Joshua Gottlieb

Autumn 2023

This version: September 7, 2023 (updates likely)

Overview: This course provides graduate-level discussion of topics and methods in the economics of healthcare.

Objectives: This course has two objectives. The first is to teach current topics and methods in the economics of healthcare. The second is to advance students' development as economists by providing training in the production of high-quality research. This training may help students read, contribute to, and draw from recent progress in this literature.

The course covers a wide variety of applied econometric and theoretical approaches. It also discusses applications of a wide variety of datasets and methods that are useful in many settings for relevant research.

Requirements:

1. Required reading: Papers marked with two stars (**) are required reading for all students
2. 6-slide summaries: Each week, you will be required to prepare two 6-slide summaries (not including the title slide). **Submit these slides on Canvas by 10 pm the night before class.** I will randomly call on students to present their slides to class. You may choose among any of the papers for that week with one star (*) for these 6-slide summaries.
3. Referee Report: You will be required to write a 3-to-5-page referee report on a recent public finance paper. A list of suitable papers will be distributed in class.

Recommendation:

The Health Economics Workshop meets on Thursday afternoons at Harris (approximately biweekly). There are great speakers this quarter, presenting on topics closely related to this class. I encourage you to attend.

Topics and Reading List by Week

1. **Week 1: September 27**
Health Insurance as Insurance: Adverse Selection, Moral Hazard

Background

¹ Adapted from Neale Mahoney, David Meltzer, Jeffrey Clemens

Cutler, David and Richard Zeckhauser. 2000. "The Anatomy of Health Insurance" in A. Culyer and J. Newhouse, eds. *Handbook of Health Economics*, Volume IA, Amsterdam: Elsevier (also available as NBER WP 7176).

**Arrow, Kenneth J. "Uncertainty and the Welfare Economics of Medical Care." *The American Economic Review* 53, no. 5 (1963): 941-73.

Adverse Selection

Einav, Liran and Amy Finkelstein. 2011. "Selection in Insurance Markets: Theory and Empirics in Pictures." *Journal of Economic Perspectives* 25(1): 115-138.

Chiappori, Pierre-André and Bernard Salanie. 2000. "Testing for asymmetric information in insurance markets." *Journal of Political Economy* 108(1): 56-78.

Finkelstein, Amy and Kathleen McGarry. 2006. "Multiple Dimensions of Private Information: Evidence from the Long-Term Care Insurance Market." *American Economic Review* 96(4): 938-958.

*Einav, Liran, Amy Finkelstein and Mark Cullen. 2010. "Estimating Welfare in Insurance Markets Using Variation in Prices." *Quarterly Journal of Economics* 123(3): 877-921.

Mahoney, Neale, and E. Glen Weyl. "Imperfect competition in selection markets." *Review of Economics and Statistics* 99.4 (2017): 637-651.

Einav, Liran, Amy Finkelstein and Paul Schrimpf. 2010. "Optimal Mandates and the Welfare Cost of Asymmetric Information: Evidence from the U.K. Annuity Market." *Econometrica* 78(3): 1031-1092.

Bundorf, Kate M., Jonathan Levin, and Neale Mahoney. 2012. "Pricing, Matching and Efficiency in Health Plan Choice." *American Economic Review* 102(7): 3214-3248.

Cutler, David and Sarah Reber. 1998. "Paying for Health Insurance: The Trade-off Between Competition and Adverse Selection." *Quarterly Journal of Economics* 113(2): 433-466.

*Cohen, Alma and Liran Einav. 2007. "Estimating Risk Preferences from Deductible Choice." *American Economic Review* 97(3): 745-788

*Handel, Benjamin. 2013. "Adverse selection and Inertia in Health Insurance Markets: When Nudging Hurts." *American Economic Review* 103(7): 2643-2682.

*Hendren, Nathaniel. 2013. "Private Information and Insurance Rejections." *Econometrica* 81(5): 1713-1762.

*Handel, Ben, Igal Hendel, and Michael D. Whinston. "Equilibria in health exchanges: Adverse selection versus reclassification risk." *Econometrica* 83.4 (2015): 1261-1313.

2. Week 2: October 4: Moral Hazard, Incidence on Patients and Insurers

Moral Hazard

*Pauly, Mark V. 1968. "The Economics of Moral Hazard: Comment." *The American Economic Review* 58(3), Part 1: 531-537.

*Gladwell, Malcolm. "The Moral-Hazard Myth: The Bad Idea Behind our Failed Health-care System." *The New Yorker*, August 29, 2005.

Baicker, Katherine, Sendhil Mullainathan, Joshua Schwartzstein, 2015. "Behavioral Hazard in Health Insurance." *Quarterly Journal of Economics* 130(4): 1623-1667

Zeckhauser, Richard. 1970. "Medical Insurance: A Case Study of the Tradeoff between Risk Spreading and Appropriate Incentives." *Journal of Economic Theory* 2(1): 10-26.

Aron-Dine, Aviva, Liran Einav and Amy Finkelstein. 2013. "The RAND Health Insurance Experiment, Three Decades Later." *Journal of Economic Perspectives* 27(1): 197-222.

*Finkelstein, Amy, Sarah Taubman, Bill Wright, Mira Bernstein, Jonathan Gruber, Joseph P. Newhouse, Heidi Allen, Katherine Baicker, and the Oregon Health Study Group. 2012. "The Oregon Health Insurance Experiment: Evidence from the First Year." *Quarterly Journal of Economics* 127(3): 1057-1106.

Cabral, Marika and Neale Mahoney. 2019. "Externalities and Taxation of Supplemental Insurance: A Study of Medicare and Medigap." *American Economic Journal: Applied Economics* 11(2): 37-73

*Einav, Liran, Amy Finkelstein, Paul Schrimpf, Stephen Ryan and Mark Cullen. 2013. "Selection on Moral Hazard in Health Insurance." *American Economic Review* 103(1): 178-219.

*Einav, Liran, Amy Finkelstein and Paul Schrimpf. 2015. "The Response of Drug Expenditure to Non-Linear Contract Design: Evidence from Medicare Part D." *Quarterly Journal of Economics* 130(2): 841-899.

*Brot-Goldberg, Zarek C., et al. "What does a deductible do? The impact of cost-sharing on health care prices, quantities, and spending dynamics." *The Quarterly Journal of Economics* 132.3 (2017): 1261-1318.

Skinner, Jonathan. 2011. "Causes and Consequences of Regional Variations in Health Care," in eds. Mark Pauly, Thomas McGuire, and Pedro Barros, *Handbook of Health Economics* Volume 2, New York NY: Elsevier.

Feldstein, Martin. 1973. "The Welfare Loss of Excess Health Insurance." *Journal of Political Economy* 81(2): 251-280.

Finkelstein, Amy and Robin McKnight. 2008. "What Did Medicare Do? The Initial Impact of Medicare on Mortality and Out of Pocket Medical Spending." *Journal of Public Economics* 92(7): 1644-1668.

Acemoglu, Daron, Amy Finkelstein and Matthew J. Notowidigdo. 2013. "Income and Health Spending: Evidence from Oil Price Shocks." *Review of Economics and Statistics* 95(4): 1079-1095.

Choice Frictions

*Bhargava, Saurabh, George Loewenstein, and Justin Sydnor. "Choose to Lose: Health Plan Choices from a Menu with Dominated Option." *The Quarterly Journal of Economics* 132.3 (2017): 1319-1372.

Lui, C and Justin Sydnor. "Dominated Options in Health-Insurance Plans" NBER WP 24392

Incidence of Insurance

**Marika Cabral & Michael Geruso & Neale Mahoney, 2018. "Do Larger Health Insurance Subsidies Benefit Patients or Producers? Evidence from Medicare Advantage," *American Economic Review*, 108(8): 2048-2087.

*Mahoney, Neale. 2015. "Bankruptcy as Implicit Health Insurance." *The American Economic Review* 105(2): 710-746.

*Garthwaite, Craig, Tal Gross and Matthew J. Notowidigdo. 2018. "Hospitals as Insurers of Last Resort." *American Economic Journal: Applied Economics* 10(1): 1-39.

*Dobkin, Carlos, Amy Finkelstein, Raymond Kluender, Matthew J. Notowidigdo. 2018. "The Economic Consequences of Hospital Admissions" *American Economic Review*, 108(2): 308-52.

3. Week 3: October 11: Insurance and Providers

Provider Negotiations

**Clemens, Jeffrey, and Joshua D. Gottlieb (2017), “In the Shadow of a Giant: Medicare’s Influence on Private Payment Systems,” *Journal of Political Economy*, January 2017, 125 (1), 1–44.

**Cooper, Zack, Stuart V Craig, Martin Gaynor, and John Van Reenen, “The Price Ain’t Right? Hospital Prices and Health Spending on the Privately Insured,” *The Quarterly Journal of Economics*, February 2019, 134 (1), 51–107.

Clemens, Jefferey, Joshua D. Gottlieb, and Tímea Laura Molnár, “Do Health Insurers Innovate? Evidence From the Anatomy of Physician Payments,” *Journal of Health Economics*, September 2017, 55, 153–167.

Cooper, Zack, and Fiona Scott Morton (2016), “Out-of-Network Emergency-Physician Bills – An Unwelcome Surprise,” *The New England Journal of Medicine*, November 2016, 375 (20), 1915–1918. [available [here](#)]

Physician Behavior

**Clemens, Jeffrey, and Joshua D. Gottlieb, “Do Physicians’ Financial Incentives Affect Medical Treatment and Patient Health?,” *American Economic Review*, April 2014, 104 (4), 1320–49. [available [here](#)]

Molitor, David, “The Evolution of Physician Practice Styles: Evidence from Cardiologist Migration,” *American Economic Journal: Economic Policy*, February 2018, 10 (1), 326–56. [available [here](#)]

Ellis, Randall P., and Thomas McGuire, “Provider Behavior Under Prospective Reimbursement: Cost Sharing and Supply,” *Journal of Health Economics*, June 1986, 5 (2), 129–152. [available [here](#)]

*Kessler, Daniel and Mark McClellan, “Do Doctors Practice Defensive Medicine?,” *Quarterly Journal of Economics*, May 1996, 111 (2), 353–390. [available [here](#)]

Hospitals

**Acemoglu, Daron, and Amy Finkelstein, “Input and Technology Choices in Regulated Industries: Evidence from the Health Care Sector,” *Journal of Political Economy*, October 2008, 116 (5), 837–880. [available [here](#)]

**Finkelstein, Amy, “The Aggregate Effects of Health Insurance: Evidence from the Introduction of Medicare,” *Quarterly Journal of Economics*, February 2007, 122 (1), 1–37. [available [here](#)]

*Gupta, Atul, “Impacts of Performance Pay for Hospitals: The Readmissions Reduction Program.” Working paper, Wharton. [available [here](#)]

Gaynor, Martin, Rodrigo Moreno-Serra, and Carol Propper, “Death by Market Power: Reform, Competition, and Patient Outcomes in the National Health Service,” *American Economic Journal: Economic Policy*, November 2013, 5 (4), 134–66. [available [here](#)]

Cooper, Zack, Stephen Gibbons, Simon Jones and Alistar McGuire, “Does Hospital Competition Save Lives? Evidence From The English NHS Patient Choice Reforms,” *The Economic Journal*, July 2011, 121, F228-F260. [available [here](#)]

Long-Term Care

*Einav, Liran, Amy Finkelstein, and Neale Mahoney, “Provider Incentives and Health Care Costs: Evidence from Long-Term Care Hospitals.” *Econometrica*, 86.6 (2018): 2161-2219.

*Hackmann, Martin, Vincent Pohl and Nicolas Ziebarth “Patient Versus Provider Incentives in Long Term Care”, Working paper August 2020. [Link](#).

4. Week 4: October 18: Administering Health Insurance *Guest Lecture: Maggie Shi*

Administration and Billing

**Cutler, David M., and Dan P. Ly, “The (Paper)Work of Medicine: Understanding International Medical Costs,” *Journal of Economic Perspectives*, Spring 2011, 25 (2), 3–25.

**Dunn, Abe, Joshua D. Gottlieb, Adam Hale Shapiro, and Pietro Tebaldi, “A Denial A Day Keeps the Doctor Away.” Working Paper, January 2023.

Pre-authorization

["Rationing Medicine Through Bureaucracy: Authorization Restrictions in Medicare"](#)
Zarek Brot-Goldberg, Samantha Burn, Timothy Layton and Boris Vabson, R&R at *AER*

Fraud

* **Monitoring for Waste: Evidence from Medicare Audits**, Maggie Shi, R&R at *QJE*

* "Ambulance Taxis: The Impact of Regulation and Litigation on Health Care Fraud," Paul Eliason, Riley League, Jetson Leder-Luis, Ryan McDevitt, and James Roberts, October 2021.

Risk Adjustment

*Geruso, Michael and Timothy Layton, 2020. "Upcoding: Evidence from Medicare on Squishy Risk Adjustment." *Journal of Political Economy* 128(3): 984-1026.

*Brown, Jason, et al. 2014. "How Does Risk Selection Respond to Risk Adjustment? New Evidence from the Medicare Advantage Program." *American Economic Review* 104(10): 3335-3364.

5. Week 5: October 25: Healthcare Labor Markets

**Gottlieb, Joshua D., Maria Polyakova, Kevin Rinz, Hugh Shiple, and Victoria Udalova, "Who Values Human Capitalists' Human Capital? Healthcare Spending and Physician Earnings", July 2023. [available [here](#)]

**Propper, Carol, and John Van Reenen, "Can Pay Regulation Kill? Panel Data Evidence on the Effect of Labor Markets on Hospital Performance," *Journal of Political Economy*, April 2010, 118 (2), 222–273. [available [here](#)]

*Bhattacharya, Jayanta, "Specialty Selection and Lifetime Returns to Specialization Within Medicine," *Journal of Human Resources*, Winter 2005, 40 (1), 115–143. [available [here](#)]

*Nikhil Agarwal, An Empirical Model of the Medical Match *American Economic Review*, July 2015. [[link](#)]

*Martin Hackmann and Benjamin Friedrich, "The Returns to Nursing: Evidence from a Parental Leave Program", *Review of Economic Studies*, October 2021. [[link](#)]

* Doug Staiger, Joanne Spetz and Ciaran Phibbs, "Is There Monopsony in the Labor Market? Evidence from a Natural Experiment," *Journal of Labor Economics*, 28(2):211-236, 2010. [[link](#)]

*David C. Grabowski, Jonathan Gruber & Brian McGarry, "Immigration, The Long-Term Care Workforce, and Elder Outcomes in the U.S." NBER Working Paper No. 30960. [[Link](#)]

6. Week 6: November 1: Geography of Healthcare

**Dingel, Jonathan, Josh Gottlieb, Maya Lozinski, Pauline Mourot, "Market Size and Trade in Medical Services." NBER Working Paper, March 2023.

**Gawande, Atul. 2009. "The Cost Conundrum." *The New Yorker*, June 1, 2009.

*Chandra, Amitabh and Douglas Staiger. 2007. "Productivity Spillovers in Health Care: Evidence from the Treatment of Heart Attacks." *Journal of Political Economy* 115(1): 103-140.

Doyle, Joseph, John Graves, Jonathan Gruber and Samuel Kleiner. 2015. "Measuring Returns to Hospital Care: Evidence from Ambulance Referral Patterns." *Journal of Political Economy* 123(1): 170-214.

*Finkelstein, Amy, Matthew Gentzkow and Heidi Williams. 2016. "Sources of Geographic Variation in Health Care: Evidence from Patient Migration." *Quarterly Journal of Economics* 131(4): 1681-1726.

*Finkelstein, Amy, Matthew Gentzkow and Heidi Williams. 2016, "Place-Based Drivers of Mortality - Evidence from Migration" *American Economic Review*, 111(8):2697-2735, August 2021.

*Stefanie J. Fischer, Heather Royer & Corey D. White, "Health Care Centralization: The Health Impacts of Obstetric Unit Closures in the US". NBER Working Paper No. 30141, June 2022. [[Link](#)]

7. Week 7: November 8: Health Insurance Market Structure

Insurer Competition

Dafny, Leemore S., Mark Duggan, and Subramaniam Ramanarayanan, "Paying a Premium on Your Premium? Consolidation in the US Health Insurance Industry," *American Economic Review*, April 2012, 102 (2), 1161-85. [available [here](#)]

Dafny, Leemore S., "Are Health Insurance Markets Competitive?," *American Economic Review*, September 2010, 100 (4): 1399-1431. [available [here](#)]

*Amanda Starc and Robert J. Town, "Externalities and Benefit Design in Health Insurance," *Review of Economic Studies*, November 2020, 87(6): 2827-2858.

*Stuart V. Craig, Keith Ericson, and Amanda Starc, "How Important Is Price Variation Between Health Insurers?" *Journal of Health Economics*, May 2021, vol 77.

*Stuart V. Craig, "Competition in Employer Sponsored Health Insurance: Implications for a Public Option". Working paper, available at <https://stuartcraig.github.io/research/>

Medicare Advantage (formerly Part C)

McGuire, Thomas, Joseph Newhouse and Anna Sinaiko. 2011. "An Economic History of Medicare Part C." *Milbank Quarterly* 89(2): 289-323.

*Curto, Vilsa, et al. 2014. "Can Health Insurance Competition Work? Evidence from Medicare Advantage." *Journal of Political Economy* Volume 129, Number 2 February 2021

**Duggan, Mark, Jonathan Gruber, and Boris Vabson. 2018. "The Consequences of Health Care Privatization: Evidence from Medicare Advantage Exits." *American Economic Journal: Economic Policy*, 10 (1): 153-86.

Newhouse, Joseph P., et al. 2012. "Steps to Reduce Favorable Risk Selection in Medicare Advantage Largely Succeeded, Boding Well For Health Insurance Exchanges." *Health Affairs* 31(12): 2618-2628.

Berwick, Donald. 2011. "Launching Accountable Care Organizations—The Proposed Rule for the Medicare Shared Savings Program." *The New England Journal of Medicine* 364(16): 32-e32.

8. Week 8: November 15: Insurance and Health Outcomes

**Jason Abaluck, Mauricio M. Caceres Bravo, Peter Hull & Amanda Starc, "Mortality Effects and Choice Across Private Health Insurance Plans", *The Quarterly Journal of Economics*, Volume 136, Issue 3, August 2021, Pages 1557–1610.

*Sarah Miller, Sean Altekruze, Norman Johnson, Laura R. Wherry, "Medicaid and Mortality: New Evidence from Linked Survey and Administrative Data," NBER Working Paper No. 26081.

* Jacob Goldin, Ithai Lurie and Janet McCubbin, [Health Insurance and Mortality: Experimental Evidence from Taxpayer Outreach](#), *Quarterly Journal of Economics* (2021)

Card, David, Carlos Dobkin and Nicole Maestas. 2009. "Does Medicare Save Lives?" *Quarterly Journal of Economics* 124(2): 597-636.

*Layton, Timothy J, Nicole Maestas, Daniel Prinz, and Boris Vabson, "Private vs. Public Provision of Social Insurance: Evidence from Medicaid," Working Paper 26042, National Bureau of Economic Research, July 2019.

9. Week 9: November 29: Student Presentations of Research Ideas/Data Access Proposals

Further Reading

Value of Care

*Hall, Robert and Charles Jones. 2007. "The Value of Life and the Rise in Health Spending." *Quarterly Journal of Economics* 122(1): 39-72.

*Murphy, Kevin and Robert Topel. 2006. "The Value of Health and Longevity." *Journal of Political Economy* 114(5): 871-904.

Medicare Part D

*Duggan, Mark and Fiona Scott Morton. 2010. "The Effect of Medicare Part D on Pharmaceutical Prices and Utilization." *The American Economic Review* 100(1): 590-607.

*Decarolis, Francesco, Maria Polyakova, and Stephen P. Ryan, "Subsidy Design in Privately Provided Social Insurance: Lessons from Medicare Part D," *Journal of Political Economy* 128, no. 5 (May 2020): 1712-1752.

*Abaluck, Jason and Jonathan Gruber. 2016. "Choice Inconsistencies among the Elderly: Evidence from Plan Choice in the Medicare Part D Program." *American Economic Review* 101(4): 1180-1210.

*Ketcham, Jonathan D., et al. 2012. "Sinking, Swimming, or Learning to Swim in Medicare Part D." *The American Economic Review* 102(6): 2639-2673

Einav, Liran, Amy Finkelstein, and Maria Polyakova, "Private Provision of Social Insurance: Drug-Specific Price Elasticities and Cost Sharing in Medicare Part D," *American Economic Journal: Economic Policy*, August 2018, 10 (3), 122-53.

Medicaid

Currie, Janet, and Jonathan Gruber. 1996. "Saving Babies: The Efficacy and Cost of Recent Expansions of Medicaid Eligibility for Pregnant Women." *Journal of Political Economy* 104(6): 1263-1296.

Cutler, David M. and Jonathan Gruber. 1996. "Does Public Insurance Crowd Out Private

Insurance?" *Quarterly Journal of Economics*, 111(2): 391-430.

Innovation

Pharmaceuticals

**Duggan, Mark and Fiona M. Scott Morton. 2006. "The Distortionary Effects of Government Procurement: Evidence from Medicaid Prescription Drug Purchasing." *Quarterly Journal of Economics* 121(1): 1-30.

*Acemoglu, Daron & Joshua Linn, "Market Size in Innovation: Theory and Evidence from the Pharmaceutical Industry." *The Quarterly Journal of Economics*, Volume 119, Issue 3, August 2004, Pages 1049–1090

Duggan, Mark & Craig Garthwaite & Aparajita Goyal, 2016. "The Market Impacts of Pharmaceutical Product Patents in Developing Countries: Evidence from India," *American Economic Review*, vol. 106(1), pages 99-135, January.

Vaccines & Public Health

**Finkelstein, Amy, "Static and Dynamic Effects of Health Policy: Evidence from the Vaccine Industry", *Quarterly Journal of Economics* 2004, 119(2): 527-564

*Oster, Emily, "Does Disease Cause Vaccination? Disease Outbreaks and Vaccination Response," *Journal of Health Economics*, 2018.