

MEC 400G / 500I: Economic Issues and the Management of Healthcare
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Introduction:

The purpose of this course is to study the management of healthcare. The course builds on MGMT 400V (Healthcare Economics, Policy, and Operations) and provides a more in-depth analysis of the economic issues covered in MGMT 400V and makes further use of frontier economic tools. (*MGMT 400V is not a formal prerequisite for this course at present.*) This is a one semester course. The target audience for the course is students who are interested in careers in healthcare, healthcare management and related fields. This includes students who might want to work for hospitals, health care plans, pharmaceutical companies, healthcare device manufacturers and consulting firms, as well as students who are interested in medical school.

The course will combine discussions of theories of healthcare with readings on policy and empirical papers and case studies in the healthcare sector. The idea is to understand what recent economic theories can contribute to healthcare management, and also to understand what evidence can be gleaned from real examples and data. The readings for the course consist research and policy papers, book chapters and case studies that are at the frontier of research and practice on healthcare management and economics. There is no formal textbook. The format of the course will be mixed lecture and discussion.

Course Description:

In order to study the management aspects of the healthcare sector, the course will analyze demand and supply in the health sector. We will study many of the important features of demand and supply in this sector including insurance and managed care, the nature of hospitals and technological innovation and costs. Because the government is heavily involved in healthcare, understanding the current and potential role of the government in the healthcare sector is necessary for understanding the management of healthcare. Thus, the course will conclude by discussing the role of the government in the healthcare sector and possibilities for reform.

The following four key themes are some of the major important concepts related to the management of healthcare, and will occur at many points during the semester.

1) Health insurance

Why is health insurance potentially problematic? In what sense is managed care a solution to the problems of insurance, and in what sense is it not? How does the presence of adverse selection change the set of profitable strategies for health plans interested in expansion?

2) The business model in healthcare

In what ways do hospitals, health plans and physicians act like businesses? What are the advantages and disadvantages of acting like businesses? How does the not-for-profit status of the majority of hospitals affect incentives and performance?

3) Costs and technology

What is the relation between cost increases and new technologies in health care? What have been the benefits of new technologies? What evidence would be necessary to determine whether cost increases are beneficial or not?

4) The government as a payer and regulator

What are the advantages and disadvantages of different healthcare arrangements with different levels of government involvement as exist in different countries? As a supplier (e.g. a pharmaceutical maker) how do strategies differ when the customer is a government agency? As an employer, how would proposed and potential Medicare/Medicaid reform affect costs?

Grading and Class Format:

The grading will consist of the following.

20% Class participation

40% Position papers

40% Final exam

Class format:

The format of the class will be interactive. Participation is an important part of the class, and will be graded as such. Classes will generally cover one or two articles, or a book chapter or case. Students will be expected to understand the basic arguments of the readings before class. In class we will critically analyze the readings, in order to understand the main points, examine the plausibility of the findings, and discuss some of the implications from the point of view of the management of healthcare. Before each class, I will circulate discussion questions for each paper that will highlight the main points that we will discuss in class.

Preparation for classes:

Students are expected to do the readings before class, in order to be ready to participate in class. Students should focus on understanding the main points of the reading, and critically consider the discussion questions.

Position papers:

During the course of the term, students should prepare four position papers, each based on an article, case or book chapter that we will discuss in class. Position papers for a given paper are due at the start of the class in which we discuss that paper. The papers should be done in groups of 2 to 4 people each; students should form their own groups. Each position paper should summarize some part or all of a reading, critically examine the plausibility of the findings, and provide a discussion of some of the implications of the reading from the point of view of the management of healthcare. You might use some of the discussion questions as a starting point for a position paper, but do not have to. I expect depth not breadth: a position paper does *not* have to cover every point in the paper, but should analyze the points that it does cover with depth. The suggested length for each position paper is three pages.

Final exam:

The final exam will be held during the last class session and be 1.5 hours in duration. It will cover key concepts from the class. Some practice final exam questions will be distributed in November so that students can familiarize themselves with the types of questions that I might ask.

Course Schedule:

1) Demand for healthcare

Class 1-3 (Aug. 31, Sep. 7, Sep. 12): Background on the demand for healthcare

Themes:

- The nature of demand for healthcare
- Shifts in demand over the 20th century

Readings:

Cutler, David. *Your Money or Your Life*. Oxford University Press. New York: 2004. Chapters 1-3.

(Please read the preceding item for the first class.)

Arrow, Kenneth, J. (1963). "Uncertainty and the Welfare Economics of Medical Care." *American Economic Review*, 53: 941-73.

Thomasson, Melissa A. (2003). "The Importance of Group Coverage: How Tax Policy Shaped U.S. Health Insurance." *American Economic Review*, 93: 1373-84.

Class 4 (Sep. 14): Theories of health insurance, adverse selection and moral hazard

Readings:

Rothschild, Michael and Joseph E. Stiglitz (1976). "Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information." *Quarterly Journal of Economics* 90(4): 630-49.

Class 5-6 (Sep. 19, 21): Empirical evidence on adverse selection and moral hazard

Readings:

Manning, W. G. et al. (1987). "Health Insurance and the Demand for Medical Care: Evidence From a Randomized Experiment." *American Economic Review*. 58: 531-8.

Cutler, David M. and Sarah J. Reber. (1998) "Paying for Health Insurance: The Trade-Off between Competition and Adverse Selection." *Quarterly Journal of Economics*, 113(2): 438-66.

Class 7-8 (Sep. 26, 28): The uninsured

Themes:

- Who are the uninsured?
- What is the impact of policies designed to reduce the number of uninsured?

Readings:

Hadley, Jack and John Holahan (2003). "How Much Medical Care Do the Uninsured Use, and Who Pays for It?" *Health Affairs* web exclusive.

Kronick, Richard (2005) "It's the Premiums, Stupid: Projection of the Uninsured Through 2013." *Health Affairs*, Web Exclusive,

(The preceding two articles will be covered in one class.)

Doyle Jr., Joseph J. (2005). "Health Insurance, Treatment and Outcomes: Using Auto Accidents as Health Shocks." *National Bureau of Economic Research*, Working Paper No. 11099.

Class 9-10 (Oct. 3, Oct. 5): Managed care

Themes:

- What does managed care do?
- How well does it perform?

Readings:

Enthoven, A.C. (1993). "The History and Principles of Managed Competition." *Health Affairs* 12: 24-48.

Baker, Laurence C., and Brown, M.L., (1999). "Managed Care, Consolidation among Health Care Providers, and Health Care: Evidence from Mammography." *RAND Journal of Economics*, 30(2): 351-374.

2) Supply of health care

Class 11 (Oct. 10): Managed care and competition

Themes:

- How has managed care affected costs and competition?
- How does the performance of managed care compare to other health plans?

Cutler, David. *Your Money or Your Life*. Oxford University Press. New York: 2004. Chapter 8.

Miller, Robert H. and Luft, Harold S. (2002) "HMO Plan Performance Update: An Analysis of the Literature, 1997-2001." *Health Affairs*, 21(4): 63-86.

(The preceding two articles will be covered in one class.)

Class 12 (Oct. 12): Hospital mergers

Readings:

Pisano, Gary P. and Golnaraghi, Maryam. *Partners HealthCare System, Inc. (A)*. Harvard Business School Case 696062.

Class 13-14 (Oct. 17, 19): Ownership structure, the role of not-for-profit and public hospitals

Themes:

- How can we explain incentives of not-for-profits?
- How do not-for-profits act differently than for-profits?

Readings:

Pauly, Mark V. and Redisch, Michael (1973). "The Not-For-Profit Hospital as a Physicians' Cooperative." *American Economic Review* 63: 87-99.

Norton, Edward C., and Staiger, Douglas O., (1994). "How Hospital Ownership Affects Access to Care for the Uninsured." *The RAND Journal of Economics*, 25(1): 171-185.

Class 15 (Oct. 24): Learning and surgery

Edmondson, Amy, Bohmer Richard and Pisano, Gary (2001). "Speeding Up Team Learning." *Harvard Business Review*.

Ho, Vivian (2000). "Evolution of the volume-outcome relationship for hospitals performing coronary angioplasty," *Circulation* 101: 1806-11.

Class 16-17 (Oct. 26, 31): Information and performance

Themes:

- How can performance be measured?
- How does information affect performance?

Readings:

Dranove, David, Kessler, Daniel P., McClellan, Mark, and Satterthwaite, Mark (2003). "Is More Information Better? The Effects of 'Report Cards' on Health Care Providers," *Journal of Political Economy*, 111(3): 555-588.

Kessler, Daniel P., and McClellan, Mark (1996). "Do Doctors Practice Defensive Medicine?" *The Quarterly Journal of Economics*, CXI: 353-90.

Class 18-20 (Nov. 2, 7, 9): Costs and technological services

Themes:

- To what extent has new technology driven medical cost increases?
- What do we get from the new technologies?

Readings:

Cutler, David, McClellan, Mark, Newhouse, Joseph and Remler, Dahlia (1998). "Are Medical Prices Declining? Evidence from Heart Attack Treatments." *The Quarterly Journal of Economics* CXIII: 991-1024.

Hamilton, Barton H. and McManus, Brian (2005). "Competition, Insurance, and Quality in the Market for Advanced Infertility Treatment." Mimeo.

Herzlinger, Regina E. and Peter Stavros. *MedCath Corporation A*. Harvard Business School Case 303041.

Class 21-22 (Nov. 14, 16): Pharmaceuticals

Themes:

- How does the patent process affect the pricing of pharmaceuticals?
- What do we get from the new drugs?

Readings:

Frank, Richard and David Salkever (1997). "Generic Entry and the Pricing of Pharmaceuticals." *Journal of Economics and Management Strategy*, 6(1): 75-90.

Berndt, Ernst R., (2001). "The U.S. Pharmaceutical Industry: Why Major Growth in Times of Cost Containment?" *Health Affairs*, 20:(2): 1-15.

Lichtenberg, F.R. (2001). "Are the benefits of newer drugs worth their cost? Evidence from the 1996 MEPS." *Health Affairs*, 20(5): 241-251.

(The preceding two articles will be covered in one class.)

3) Government policies and healthcare management

Class 23 (Nov. 21): The role of the government in healthcare provision

Themes:

- What is the role of the government in healthcare in the U.S. and in other countries?

Readings:

Cutler, David. *Your Money or Your Life*. Oxford University Press. New York: 2004. Chapters 5-6, 9-10.

Class 24 (Nov. 28): Medicare reimbursement and incentives

Themes:

- How do Medicare reimbursement practices affect hospital behavior and outcomes?

Readings:

McClellan, Mark (1997). "Hospital Reimbursement Incentives: An Empirical Analysis," *Journal of Economics and Management Strategy*, 6(1): 91-129.

Class 25-26 (Nov. 30, Dec. 5): Lessons from other countries

Themes:

- What are the advantages and disadvantages of single payer systems?
- What about for employer-paid health insurance?

Readings:

Anderson, Gerard F., Uwe Reinhardt, Peter S. Hussey, and Varduhi Petrosyan (2003). "It's the Prices Stupid: Why the United States Is So Different From Other Countries." *Health Affairs*, 22: 10-25.

Danzon, Patricia and Furukawa, Michael (2003). "Prices And Availability Of Pharmaceuticals: Evidence From Nine Countries." *Health Affairs* web exclusive.

(The preceding two articles will be covered in one class.)

Gowrisankaran, G., (2002). "Productivity in Heart Attack Treatments." *Federal Reserve Board of San Francisco Economic Letter 2002-20*,

Technological Change in Health Care (TECH) Research Network (2001). "Technological Change Around The World: Evidence From Heart Attack Care." *Health Affairs* 20: 25-42.

(The preceding two articles will be covered in one class.)

Class 27 (Dec. 7): Final exam