

**COLLEGE OF HEALTH AND HUMAN SERVICES**  
**California State University, Long Beach**  
**Health Care Administration Program**

**Economics of Health**  
**Fall 2009**

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**Instructor:** E. Erlyana Ph.D.  
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**Class Number:** HCA 451  
**Class Meets:** Aug 31<sup>st</sup> to Dec 19<sup>th</sup>,  
Wednesdays, 7 – 9:45 pm, Room: HSD-111

**Office Hours:** Mondays and Wednesdays,  
2:30 – 5 pm or by appointment

***Additional Contact Information:***  
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**Course Description**

The class is a review of microeconomic principles and their application to healthcare. It covers the discussion of basic health economic concepts such as demand and supply model, theoretical model of competition, opportunity costs, production of health, cost benefit and cost effectiveness analysis and behavior of health care markets and organizations. In addition, the class also includes the discussion of the role of government in health and medical care market and a review of various health care reforms.

Prerequisites: ECON 101 or 300.

**Course Objectives**

After the completion of the course, the student will be able to:

- demonstrate an understanding of the laws and principles of economics at the micro and macro levels and the impact of these laws and principles on healthcare organizations,
- describe the various kinds of health care markets,
- demonstrate an understanding of the cost-benefit concept and its application in health services delivery,
- demonstrate an understanding of governmental regulations on health care,
- analyze the economic impact of various healthcare policies and proposals on the health care sector,
- learn the competitive model and how it relates to healthcare supply and demand,
- demonstrate an understanding of marketing in healthcare and how they relate to supply and demand,
- demonstrate strong working knowledge of economic concepts when they are discussed in day-to-day meetings with fellow healthcare professionals.

## Textbook

Thomas E. Getzen with Bruce H. Allen, *Health Care Economics: Principles and tools for the health care industry*, Wiley, 2007.

Cambridge Educational. (2006). *Economic Basics: Microeconomics*, CD-Rom.

## Supplementary Readings

To access the new eReserves page, please follow these instructions:

1. Go to the Library Home Page (lwww.csulb.edu/library)
2. Click on the "Find Books and Media (COAST)" link
3. On the right side of the page, click on "Course Reserves"
4. Search by Course name (ex: HCA 451 or Healthcare Administration 451) or by Instructor Name (ex: Erlyana, Erlyana)
5. A list of everything on reserve for that course will be displayed. To view an article, just click on the title of the article and enter the course password (hca451).

Direct link to the course reserves page: <http://coast.library.csulb.edu/screens/reserves.html>

## Course Grading

Letter grade only (A-F). Students can accumulate up to 320 points from all course requirements (see schedule below). Course grades will be determined based on the following:

90%	A
80%	B
70%	C
60%	D
<60%	F

## **EVALUATION TOOLS**

Final Exam	100 points
Quizzes 3 @ 30 points each	90 points
Assignments 6 @ 15 points each	90 points
Class participation and attendance	40 points
<b>Total</b>	<b>320 points</b>

**Final Exam** is a take home which will be provided at the conclusion of the course. It is a comprehensive exam with integrative components which requires thorough analysis of economic principles and health care policies.

**Quizzes** will include multiple choice questions and will be distributed in the beginning of the class on the assigned weeks. The quizzes will be graded satisfactory or unsatisfactory. Full solutions will be distributed. Satisfactory means a serious attempt to answer at least 80% of the questions.

Under no circumstances, make up quizzes/exams will be given unless the student has proven medical and other problems.

**Assignment** is a response to questions in given weeks. It could be discussed in a group, but each student needs to submit his/ her own individual response. The lowest scores on the assignments will be dropped.

The assignments due a week after the questions are posted/ given. No credit for late assignments. Each answer should be no longer than one page, singled-spaced, and 11 or 12 character per inch. The questions will deal with the specific reading assignments; therefore it will be important that the student carefully incorporated the readings on the answers. Academic honesty is required - see below.

**Class Participation and Attendance** is essential for course success. Active participation and regular attendance are expected at all time. Withdrawal after 2<sup>nd</sup> week and before final 3 weeks is permissible for serious and compelling reasons. For disabled students, please notify instructor for the need of accommodations.

## **ACADEMIC INTEGRITY**

Academic Integrity is defined as not cheating and not plagiarizing; honesty. Please refer to CSULB Catalog for plagiarism and cheating definition and sanction:

[http://www.csulb.edu/divisions/aa/catalog/2009-2010/academic\\_information/cheating\\_plagiarism.html](http://www.csulb.edu/divisions/aa/catalog/2009-2010/academic_information/cheating_plagiarism.html)

### **Definition of Plagiarism**

Plagiarism is defined as the act of using the ideas or work of another person or persons as if they were one's own, without giving credit to the source. Such an act is not plagiarism if it is ascertained that the ideas were arrived at through independent reasoning or logic or where the thought or idea is common knowledge. Acknowledge of an original author or source must be made through appropriate references, i.e., quotation marks, footnotes, or commentary. Examples of plagiarism include, but are not limited to, the following: the submission of a work, either in part or in whole, completed by another; failure to give credit for ideas, statements, facts or conclusions with rightfully belong to another; in written work, failure to use quotation marks when quoting directly from another, whether it be a paragraph, a sentence, or even a part thereof; or close and lengthy paraphrasing of another's writing or programming. A student who is in doubt about the extent of acceptable paraphrasing should consult the instructor. Students are cautioned that, in conducting their research, they should prepare their notes by (a) either quoting material exactly (using quotation marks) at the time they take notes from a source; or (b) departing completely from the language used in the source, putting the material into their own words. In this way, when the material is used in the paper or project, the student can avoid plagiarism resulting from verbatim use of notes. Both quoted and paraphrased materials must be given proper citations.

### **Definition of Cheating**

Cheating is defined as the act of obtaining or attempting to obtain or aiding another to obtain academic credit for work by the use of any dishonest, deceptive or fraudulent means. Examples of cheating during an examination would include, but not be limited to the following: copying, either in part or in wholes, from another test or examination; discussion of answers or ideas relating to the answers on an examination or test unless such discussion is specifically authorized by the instructor; giving or receiving copies of an exam without the permission of the instructor; using or displaying notes; "cheat sheets," or other information or devices inappropriate to the prescribed test conditions, as when the test of competence includes a test of unassisted recall of information, skill, or procedure; allowing someone other than the officially enrolled student to represent the same. Also included is plagiarism as defined and altering or interfering with the grading procedures. It is often appropriate for students to study together or to work in teams on projects. However, such students should be careful to avoid use of unauthorized assistance, and to avoid any implication of cheating, by such means as sitting apart from one another in examinations, presenting the work in a manner which clearly indicates the effort of each individual, or such other method as is appropriate to the particular course.

## Course Schedule

<b>Week # - Date</b>	<b>Topic</b>	<b>Readings &amp; Assignments</b>
<b>Week 1</b> Sept. 2	The Flow of Funds through the Health Care System - Review of Basic Economic Concepts	Readings: Ch. 1  Cambridge Educational. (2006). <i>Economic Basics: Microeconomics</i> , CD-Rom
<b>Week 2</b> Sept. 9	Overview of U.S. Health Care and Major Issues in Health Care Financing	Readings: Ch. 1 & 14 U.S. Health Expenditure, Uses, and Sources. Available at: <a href="http://www.cms.hhs.gov/NationalHealthExpendData/">www.cms.hhs.gov/NationalHealthExpendData/</a> Sisko, A., et al. February 2009. Health Spending Projections Through 2018: Recession Effects Add Uncertainty To The Outlook. <i>Health Affairs</i> Web Exclusive.
<b>Week 3</b> Sept. 16	Economic Evaluation of Health Services	<b>Assignment 1 due</b> Readings: Ch. 2
<b>Week 4</b> Sept. 23	Cost-Benefit and Cost-Effectiveness Analysis	<b>Quiz 1</b> Readings: Ch. 3 B. Chaudhry et al., "Systematic Review: Impact of Health Information Technology on Quality, Efficiency, and Costs of Medical Care," <i>Annals of Internal Medicine</i> 144, no. 10 (2006): 742–752.
<b>Week 5</b> Sept. 30	The Demand for Health Insurance	<b>Assignment 2 due</b> Readings: Ch. 4
<b>Week 6</b> Oct. 7	The Market for Health Insurance – Flow of Funds in the Insurance Industry	Readings: Ch. 5
<b>Week 7</b> Oct. 14	The Supply of Medical Care: Physician – The Economics of Practicing Medicine	<b>Assignment 3 due</b> Readings: Ch 6 Hospital and Physician Capacity Update: A Brief Report from the Dartmouth Atlas of Health Care. <a href="http://www.dartmouthatlas.org/atlas/Capacity_Report_2009.pdf">http://www.dartmouthatlas.org/atlas/Capacity_Report_2009.pdf</a>
<b>Week 8</b> Oct. 21	The Supply of Medical Care: Physician Organizations	<b>Quiz 2</b> Readings: Ch. 7 Berenson R.A. et al. Consumer-Driven Health Care May Not Be What Patients Need—Caveat Emptor. <i>JAMA</i> . 2009; 301(3):321-323.

<b>Week # - Date</b>	<b>Topic</b>	<b>Readings &amp; Assignments</b>
<b>Week 9</b> Oct. 28	The Supply of Medical Care: Hospitals	<b>Assignment 4 due</b> Readings: Ch. 8 – 9 Bradley C Strunk, et al. The Effect Of Population Aging On Future Hospital Demand. <i>Health Affairs</i> , Jan-Jun 2006. p. W141 (9 pages)
<b>Week 10</b> Nov. 4	Managed Care & Market Competition in Medical Care	Readings: Ch. 10 Miller, Robert H. and Harold S. Luft (1997), "Does Managed Care Lead to Better or Worse Quality of Care?" <i>Health Affairs</i> , Vol.16, September, pp.7-25.
<b>Week 11</b> Nov. 11	The Market of Long Term Care	<b>Assignment 5 due</b> Readings: Ch. 11 Financing Long Term Care for the Elderly. Available at: <a href="http://www.cbo.gov/ftpdocs/54xx/doc5400/04-26-LongTermCare.pdf">http://www.cbo.gov/ftpdocs/54xx/doc5400/04-26-LongTermCare.pdf</a>
<b>Week 12</b> Nov. 18	The Pharmaceutical Industry	<b>Quiz 3</b> Readings: Ch. 12 Hartman, M., et al. (2009) "National Health Spending in 2007: Slower Drug Spending Contributes to Lowest Rate of Overall Growth Since 1998", <i>Health Affairs</i> , 28(1): 246-261.
<b>Week 13</b> Nov. 25	<b>Thanksgiving Holiday</b>	<b>Assignment 6 due</b>
<b>Week 14</b> Dec. 2	International Comparison & Discussion on Current US Health Care Reform	Readings: Ch. 13 Anderson, G. F., U. E. Reinhardt, et al. (2003). "It's the prices, stupid: Why the United States is so different from other countries." <i>Health Affairs</i> 22(3): 89-105. Anderson et Al. 2005. Health Spending In The United States And The Rest Of The Industrialized World. <i>Health Affairs</i> July/August 2005 - Volume 24, Number 4 White C. 2007. Health care spending growth: How different is the United States from the rest of the OECD? <i>Health Affairs</i> , 26(1):154-161.
<b>Week 15</b> Dec. 9	The Role of Government in Health and Medical Care Final Exam Review	<b>Assignment 7 due</b> Readings: Chapter 10: "Correcting Market and Government Failure" in Weimer, David L. and Aidan R. Vining. 2005. <i>Policy Analysis: Concepts and Practice</i> . Prentice Hall.
<b>Week 16</b> Dec. 16		Final Exam, <b>due 9:00 PM</b>

## Course Outline

### **Week 1: The Flow of Funds through the Health Care System & Review of Basic Economic Concepts – Sep 2**

**Key concepts:** economic resources, opportunity costs, demand and supply curve, competition, profit maximization, utility theory, types of markets, scarcity, opportunity cost, trade, exchange

**Readings:** Chapter 1

Cambridge Educational. (2006). *Economic Basics: Microeconomics*, CD-Rom

### **Week 2: Overview of U.S. Health Care & Major Issues in Health Care Financing – Sep 9**

**Key Concepts:** public goods, private goods, inferior Goods, luxury Goods, derived demand, resource allocation

**Readings:** Chapter 1 & 14

U.S. Health Expenditure, Uses, and Sources. Available at:  
[www.cms.hhs.gov/NationalHealthExpendData/](http://www.cms.hhs.gov/NationalHealthExpendData/)

Sisko, A., C. Truffer, S. Smith, et al. February 2009. Health Spending Projections Through 2018: Recession Effects Add Uncertainty To The Outlook. *Health Affairs* Web Exclusive.

#### **Questions:**

- a. Average annual growth in national health spending is projected to increase faster than annual growth in GDP in the next decade. List the most important reasons for this trend and discuss.
- b. Who pays for health care? Is there any change in the composition of payers or their share in the last decade or two? Discuss

### **Week 3: Economic Evaluation of Health Services – Sep 16**

**Key Concepts:** Need, Demand, Supply, Marginal Analysis, Equilibrium/ Market Prices, Elasticities, Price Discrimination

**Readings:** Chapter 2

### **Week 4: Cost-Benefit and Cost-Effectiveness Analysis – Sep 23**

**Key Concepts:** Expected Value, Maximization, Value of Health/ Life, Measuring Benefits and Costs, Costs for Society (Welfare Loss)

**Readings:** Chapter 3

B. Chaudhry et al., “Systematic Review: Impact of Health Information Technology on Quality, Efficiency, and Costs of Medical Care,” *Annals of Internal Medicine* 144, no. 10 (2006): 742–752.

**Questions:**

- a. Most experts believe that health care demand is fairly inelastic. If you are sick, you will not be very price sensitive. There are some exceptions to this rule, what are they? What factors might change elasticities of health care demand?
- b. In any Cost Benefit/ Effectiveness Analysis, one must be able to identify/ quantify the benefits and the costs? List two major type of benefits and costs, give examples and discuss

**Week 5: The Demand for Health Insurance – Sep 30**

**Key Concepts:** Uncertainty, Risk Pooling/ Sharing, Catastrophic Loss, Risk Aversion, Adverse Selection, Cost Sharing Mechanisms, Preferred Risk Selection

**Readings:** Chapter 4

**Week 6: The Market & Flow of Funds in the Insurance Industry – Oct 7**

**Key Concepts:** Supplier-induced Demand, Moral Hazard, Adverse Selection, Type of Insurance Plans

**Readings:** Chapter 5

**Questions:**

- a. Insurance policies vary widely, even when issued by the same company. Obtain at least two insurance policy contracts or brochures that explain coverage with different policies. Compare the coverage and discuss the incentives and disincentives of each type of coverage creates.
- b. Which government insurance program is more affected by adverse selection, Medicare or Medicaid? Explain

**Week 7 & 8: The Supply of Medical Care: Physician & Physician Organizations– The Economics of Practicing Medicine – Oct 14 & 21**

**Key Concepts:** Capitation, Fee for Services, Fee Schedule, Cost Sharing, Price Discrimination, Kickbacks

**Readings:** Chapter 6 & 7

Hospital and Physician Capacity Update: A Brief Report from the Dartmouth Atlas of Health Care. Available at: [http://www.dartmouthatlas.org/atlases/Capacity\\_Report\\_2009.pdf](http://www.dartmouthatlas.org/atlases/Capacity_Report_2009.pdf)

Berenson R.A. et al. Consumer-Driven Health Care May Not Be What Patients Need—Caveat Emptor. *JAMA*. 2009; 301(3):321-323.

**Questions:**

- a. It is widely acknowledged that there is an information gap between physician and patients regarding medical care. Yet the trend in health insurance is toward consumer-driven health insurance (such as high deductible health insurance combined with HSAs), in which consumers are expected to take more active role in purchasing medical care and services and,

- as a consequence, reduce health care costs. Consider how the information gap between physicians and patients might affect these consumer-driven plans.
- b. What advantages does a large physician group have over a solo physician? What disadvantages? Give some examples of how physicians in a group practice might benefit from economies of scale when it comes to marketing their practice.

### **Week 9: The Supply of Medical Care: Hospitals – Oct 28**

**Key Concepts:** Price Discrimination, Capitation, Fee for Services, Monopoly, Economies of Scale, DRGs, Cost Shifting, Cream Skimming, Contracting Out, CON Legislation

**Readings:** Ch. 8 & 9

Bradley C Strunk, et al. The Effect Of Population Aging On Future Hospital Demand. *Health Affairs*, Jan-Jun 2006. p. W141 (9 pages)

### **Week 10: Managed Care & Market Competition in Medical Care – Nov 4**

**Key Concepts:** HMO, PPO, Indemnity Plan, Gatekeeping, Capitation, Withholds, Risk Selection, Managed Care Backlash, Anti-Trust Laws, Report Card

**Readings:** Chapter 10

Miller, Robert H. and Harold S. Luft (1997), "Does Managed Care Lead to Better or Worse Quality of Care?", *Health Affairs*, Vol.16, September, pp.7-25.

#### **Questions:**

- a. Is managed care the solution of rising costs? There is some evidence that cost savings from HMOs have tended to be "one-time" reductions. What might produce a one-time saving? What would be necessary in order for savings to be continuous?
- b. List two forms of hospital funding that don't pressure hospitals to contain costs and list two forms of hospital funding that do pressure hospitals to contain costs. Explain how DRG payment works.

### **Week 11: The Market of Long Term Care – Nov 11**

**Key Concepts:** Case-mix reimbursement, Spending Down, CON Legislation

**Readings:** Chapter 11

Financing Long Term Care for the Elderly. Available at: <http://www.cbo.gov/ftpdocs/54xx/doc5400/04-26-LongTermCare.pdf>

### **Week 12: The Pharmaceutical Industry – Nov 18**

**Key Concepts:** Price Discriminations, Economies of Scale, Barrier to Entry, Price Controls, Pharmacy Benefit Managers (PBMs), Generic Drugs, Prescription Drugs, Over the Counter (OTC) Drugs, FDA, Pharmacoeconomics

**Readings:** Chapter 12

Hartman, M., et al. (2009) "National Health Spending in 2007: Slower Drug Spending Contributes to Lowest Rate of Overall Growth Since 1998", *Health Affairs*, 28(1): 246-261.

**Questions:**

- a. What characteristics of LTC make it unlike other health care? Are these the most important characteristics limiting the market for LTC insurance?
- b. How are prescription costs "managed" by insurance companies? How is most pharmaceutical research paid for? What is the most costly aspect of pharmaceutical research?

**Week 13: No Class – Thanksgiving Holiday – Nov 25**

**Week 14: International Comparison & Discussion on Current US Health Care Reform – Dec 2**

**Key Concepts:** Global Disparities, Health Spending vs. Nation' Health Status, International Trade, Global Market, Outsourcing, Telemedicine

**Readings:** Chapter 13

Anderson, G. F., U. E. Reinhardt, et al. (2003). "It's the prices, stupid: Why the United States is so different from other countries." *Health Affairs* 22(3): 89-105.

Anderson et Al. 2005. Health Spending In The United States And The Rest Of The Industrialized World. *Health Affairs* July/August 2005 - Volume 24, Number 4

White C. 2007. Health care spending growth: How different is the United States from the rest of the OECD? *Health Affairs*, 26(1):154-161.

**Questions:**

- a. How much is spent per person on health care in China? How much is spent per person on health care in the US? In the United Kingdom? What are the primary factors accounting for these differences?
- b. What will be your suggestion to improve access/ reduce the number of uninsured or controlling rapidly increasing health care cost in the U.S?

**Week 15: The Role of Government in Health and Medical Care & Final Exam Review – Dec 9**

**Key Concepts:** Market Failure, Externalities

**Readings:**

Chapter 10: "Correcting Market and Government Failures" in Weimer, David L. and Aidan R. Vining. 2005. *Policy Analysis: Concepts and Practice*. Prentice Hall.

**Week 16: Final Exam – Dec 16**

## SUPPLEMENTAL READINGS

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- Anton, T. J. 1997. 'New Federalism and Intergovernmental Fiscal Relationships: The Implications for Health Policy.' *Journal of Health Politics, Policy, and Law*, 22(3), 691-720.
- Barer, M. L., Lomas, J., and Sanmartin, C. 1996. 'Re-minding our Ps and Qs: Cost Controls in Canada.' *Health Affairs*, 15(2), 216-34.
- Brooks, G. R. and Jones, V. G. 1997. 'Hospital Mergers and Market Overlap.' *Health Services Research* 31(6), 701-722.
- Buchmueller, T. C. and Feldstein, P. J. 1996. 'Hospital Community Benefits Other than Charity Care: Implications for Tax Exemption and Policy.' *Hospital & Health Services Administration* 41(4), 461-71.
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- Davis, K. 1997. 'Uninsured in an Era of Managed Care.' *Health Services Research* 31(6), 641-649.
- Dranove, D., Durkac, A., and Shanley, M. 1996. 'Are Multihospital Systems More Efficient?' *Health Affairs* 15(1), 100-4.
- Enthoven, A. C. and Kronick, R. 1991. 'Universal Health Insurance through Incentives Reform.' *Journal of the American Medical Association*, 265(19), 2532-6.
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- Goldman, D. P., Leibowitz, A., Buchanan, J. L., and Keesey, J. 1997. 'Redistributional Consequences of Community Rating.' *Health Services Research* 32 (1), 71-86.
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- Hacker, J. S. and Skocpol, T. 1997. 'The New Politics of U. S. Health Policy.' *Journal of Health Politics, Policy, and Law*, 22(2), 315-38.
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- Jensen, Gail A., Michael A. Morrissey, Shannon Gaffney, and Derek K. Liston. "The New Dominance of Managed Care: Insurance Trends in the 1990's" *Health Affairs* 1 (Jan/Feb 1997), pp. 125-36.
- Leffler, Keith B. "Physician Licensure: Competition and Monopoly in American Medicine." *Journal of Law & Economics* 21 (1978), pp. 165-86.
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