

HEALTH ECONOMICS  
ECON 450/001,002  
UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL  
FALL 2019 SYLLABUS<sup>1</sup>

LOGISTICS

Department: Economics  
Credit Hours: 3.0

Instructor: Andrés Hincapié  
Pronouns: *he/him/his*  
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Gardner 101

Office Hours: Th 4:45PM-6:15PM (confirm via email you are coming). If this time does not work for you send me an email and we will find a time.

Prerequisites: ECON 400 and 410, a grade of C or better in both courses is required; permission of the instructor for students lacking the prerequisites.

Textbook: Bhattacharya, Jay, Timothy Hyde, and Peter Tu. *Health Economics*. Palgrave Macmillan, 2014.

Lectures:

- ECON 450/001: T/Th 2:00-3:15 PM (Gardner 0007)
- ECON 450/002: T/Th 3:30-4:45 PM (Gardner 0007)

COURSE DESCRIPTION

Health and health care continue to be in the spot light. According to a study by the Pew Research Center, health care ranks fourth in terms of issues voters in 2016 considered “very important.”<sup>2</sup> Public attention on the topic is not misplaced. National health care expenditures as a percent of the GDP have been growing over the last 50 years but we rank low among develop nations in public health measures such as life-expectancy and infant mortality.

In this class we will study the market for health and health care drawing from basic economic concepts to understand the choices of consumers and firms, as well as interactions

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<sup>1</sup>This version was compiled on August 16, 2019. I will notify you of any updates to the syllabus.

<sup>2</sup>See <http://www.people-press.org/2016/07/07/4-top-voting-issues-in-2016-election/> Health care ranks fourth after “the economy,” “terrorism,” and “foreign policy.”

between consumers, firms, and the government. The course is specially aimed at Economics undergrads. However, students from other social sciences with some background in basic economics and mathematics should also benefit from taking the course. Enrolled students should expect to learn the main features of health care markets, including the economic interactions from which it emerges.

The course will generally follow the textbook with added materials from the academic literature. The slides will be fairly self-contained but reading the textbook will help you understand concepts even further. Below is the tentative class schedule and a list that introduces some of the relevant readings.

### COURSE GOALS AND KEY LEARNING OBJECTIVES

- Students will be familiar with basic national trends describing health and the healthcare sector as well as empirical results describing demand for healthcare.
- Students will understand the Grossman model of health production and its implications.
- Students will know different hypotheses explaining health disparities across socio-economics groups and will be able to analyze them in the context of an economic model.
- Students will understand economic arguments explaining unhealthy behaviors.
- Students will know basic characteristics of the market for physicians and will have a basic understanding of the role hospitals play in the supply of healthcare.
- Students will understand the concept of insurance and why individuals demand it.
- Students will understand and distinguish the concepts of adverse selection and moral hazard, and will be able to identify health-related situations in which they might emerge.
- Students will be familiar with the role of innovation and technology in healthcare markets.
- Students will understand common issues associated with designing health policies.
- Students will recognize the main approaches to healthcare provision adopted by nations around the world and their main motivations and obstacles.
- Students will have a basic understanding of different econometric methods that economists use to study health and healthcare.

## GRADING

Your final grade will be determined as follows:

- Quiz (x1): 10%
- Midterm (x1): 25%
- Final: 25%
- Problem sets (x3): 8% each
- Participation: 6%
- Student presentations: 10%

Your performance in the course will be evaluated using a combination of problem sets, exams, presentations and class participation:

- Problem sets will be posted at least a week before they are due and solutions will be made available in a timely fashion to allow for exam preparation (see schedule below). Groups of at most two people may work together in their problem sets and turn in one single set of solutions.
- Student presentations will be done by groups selected by the students themselves. Students will propose the topics and the instructor will approve them. The number of members in the group, as well as the time allocated for each presentation, will depend on the number of students in the class.
- Class participation will be a way to foster and measure your engagement in class discussions. If reading of a specific academic paper is required for a discussion I will make sure to notify you in a timely fashion.<sup>3</sup>
- Although the quiz is mandatory, the midterm is optional. Students may opt out of the mid term and that percentage will be allocated entirely to the final exam as long as the student notifies me **before the day of the exam**. The final exam is mandatory and cumulative. Anything discussed in class can enter in the exams unless stated otherwise, even if it was not part of a problem set. For exams and problem sets students will get numeric grades on a 100 point base. At the end of the semester your participation will be deemed as “null,” “low,” “medium,” or “high,” which corresponds to scores 0, 70, 85, 100. I do not curve grades. At the end of the semester, final numerical grades will be approximated to their closets integer and converted back to letter grades when reported to the system using the following conversion table:

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<sup>3</sup>Some of the research articles listed will be fairly advanced for many of you. Hence, I do not expect you to understand all the mathematics and econometrics of the paper, if there are any. Instead, I expect you to be able to read the intro of the paper and glance through the other sections to be able to capture the main ideas of the paper: What is the research question? How is it related to health economics? What’s their economic argument? What is the authors’ answer? How do they reach that answer? And finally, make sure you build your own opinion regarding whether or not you find the paper compelling or relevant.

Letter Grade	Lower Limit	Upper Limit
A	95	100
A-	90	94
B+	87	89
B	83	86
B-	80	82
C+	77	79
C	73	76
C-	70	72
D+	65	69
D	60	64
F	0	59

## POLICIES AND EXPECTATIONS

Students with university-approved absences may request a make-up examination at a time convenient to both student and instructor.<sup>4</sup> I do not provide extra-credit activities to specific students to “boost” their grade. Hence, your best strategy is to work hard in every assignment and exam.

Engagement in the course (demonstrated through attention, comments, questions, active listening, and participation in in-class activities) is expected and a part of the learning experience. While I understand that students may not be able to attend every class, students must likewise understand that an absence from class may result in missed information and, consequently, a lower grade. I cannot replicate our hour-and-fifteen-minute class in my office hours. It will be your responsibility to obtain the missed information. Attendance will not be taken, but engagement and active participation will have a positive impact on your final grade through my perception of your commitment to learn. Notice that if you rarely show up to class your participation may be deemed null or low by virtue of you not being there to participate in the first place.

You are expected to be honest and honorable in your fulfillment of course conduct, course assignments, and course exams. Adherence to the honor code is required.<sup>5</sup> During class and office hours you shall refer to your fellow students and to your instructor with respect and civility—hopefully this applies throughout your life in general. No discriminatory language or behavior will be allowed in the class.

Laptops, tablets, phones, or similar devices are not prohibited during the lecture, except when in-class activities require so. However, I strongly discourage you from using them. You should be aware that using these devices may have negative effects on your peers and interfere with your own learning.<sup>6</sup>

Finally, due to prior experiences, I will only answer emails that are written in a professional manner. For reference, here is your recommended structure for a professional email:

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<sup>4</sup>See <http://catalog.unc.edu/policies-procedures/attendance-grading-examination/>

<sup>5</sup>See <https://studentconduct.unc.edu/sites/studentconduct.unc.edu/files/documents/Instrument.pdf>

<sup>6</sup>See <http://www.newyorker.com/tech/elements/the-case-for-banning-laptops-in-the-classroom>

Dear (*or other salutation word*) Dr. Hincapié,

Content.

Best (*or other ending words*),

Héctor Lavoe

Alternative proper *salutation words* include: “Good morning,” “Good afternoon,” “Good evening,” “Hello,” “Hi.” Improper *salutation words* include: “Hey,” “Yo,” “Dude.” In general, just use your common sense to avoid coming across as a disrespectful student.

#### OTHER RESOURCES

The academic papers in the “Reading” column of the schedule will be posted in “Reserves” on Sakai. If you ever need assistance from a librarian, Nancy Lovas is the economics librarian. She is available to work with you on your research if you were to need it. You can email or meet with her to talk about developing a research question, identifying databases, how to search for information, literature reviews, finding datasets, and more. You can make an appointment with Nancy at <https://calendar.lib.unc.edu/appointments/business> or contact her via email at [nancy64@email.unc.edu](mailto:nancy64@email.unc.edu).

## Tentative Schedule - Fall 2018

Week	Day	Date	Unit	Topic	Readings	Comments
1	T	8/20	Intro	Intro	Ch 1*, Cutler, Rosen, and Vijan (2006), Fuchs (2012)*	
1	TH	8/22	Demand	Demand for health care	Ch 2*, Finkelstein et al. (2012)*, Keeler et al. (1988) (Summary)	
2	T	8/27	Demand	Grossman model	Ch 3*, Grossman (1972)*	
2	TH	8/29	Demand	Grossman model	Kim and Ruhm (2012)*	
3	T	9/3	Demand	Health disparities	Ch 4*, Roseboom et al. (2001), Galama and van Kippersluis (2013)*	
3	TH	9/5	Demand	Health "bads"	Becker and Murphy (1988)*, Becker, Grossman, and Murphy (1994), Gilleskie and Strumpf (2005)*, Leibenstein (1950)	PS1 Posted
4	T	9/10	Supply	Supply of health care 1	Ch 5*, Schulman et al. (1999), Chan and Dickstein (2017)*	
4	TH	9/12	Supply	Supply of health care 2	Ch 6*, Gaynor, Mostashari, and Ginsburg (2017)	
5	T	9/17	Supply	Supply of health care 3	Gowrisankaran and Town (2003)* (Intro and Background sections)	PS1 Due
5	TH	9/19	Quizz	Quizz and class discussion	TBD	
6	T	9/24	Information	Demand for insurance	Ch 7*	
6	TH	9/26	Information	Demand for insurance	Ch 7*	
7	T	10/1	Information	Adverse selection	Ch 8*, Akerlof (1970)	PS2 Posted
7	TH	10/3	Information	Adverse selection	Ch 9*	
8	T	10/8	Information	Adverse selection	Ch 9*	Away at BanRep
8	TH	10/10	Review	Review session for MT		PS2 Due
9	T	10/15	EXAM	MIDTERM		
9	TH	10/17	NO CLASS	NO CLASS		Fall Break
10	T	10/22	Information	Adverse selection	Ch 10*, Cardon and Hendel (2001)*	
10	TH	10/24	Information	Moral hazard	Ch 11*	
11	T	10/29	Innovation	Pharmaceuticals	Ch 12*	
11	TH	10/31	Innovation	Health technology assessment	Ch 14*	PS3 Posted
12	T	11/5	Innovation	Demand under innovation	Hamilton et al. (2019)*, Papageorge (2016)	
12	TH	11/7	Health Policy	Health policy conundrum	Ch 15*, Garber and Skinner (2008)*, Kyle and Williams (2017)*	Presentation rules
13	T	11/12	Health Policy	Beveridge model	Ch 16*, Ringard (2012)*	PS3 Due
13	TH	11/14	Health Policy	Bismark model	Ch 17*, Or et al. (2010)*, Ringard (2012)*	Away at CIDE
14	T	11/19	Health Policy	American model	Ch 18*	
14	TH	11/21	Health Policy	Student Presentations 1		
15	T	11/26	Health Policy	Student Presentations 2		
15	TH	11/28	NO CLASS	NO CLASS		Thanksgiving Break
16	T	12/3	Review	Review session for Final		Away at JHU
16	TH	12/5	NO CLASS	NO CLASS		Classes end on Dec 4
Finals	SAT	12/7	EXAM	12:00-3:00PM, Section 001		
Finals	TH	12/12	EXAM	4:00-7:00PM, Section 002		

Readings marked with a star are the most relevant for the class. Other readings are suggested.

## References

- Akerlof, George A. 1970. "The Market for "Lemons": Quality Uncertainty and the Market Mechanism." *The Quarterly Journal of Economics* 84 (3):488–500.
- Becker, Gary S., Michael Grossman, and Kevin M. Murphy. 1994. "An Empirical Analysis of Cigarette Addiction." *The American Economic Review* 84 (3):396–418.
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- Chan, David C. and Michael J. Dickstein. 2017. "Price-setting by Committee: Evidence from Medicare." Mimeo, Stanford and NYU.
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- Hamilton, Barton, Andrés Hincapié, Robert Miller, and Nicholas Papageorge. 2019. "Innovation and Diffusion Medical Treatment." WP.
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- Leibenstein, H. 1950. "Bandwagon, Snob, and Veblen Effects in the Theory of Consumers' Demand." *The Quarterly Journal of Economics* 64 (2):183–207.
- Or, Zeynep, Chantal Cases, Melanie Lisac, Karsten Vrangbaek, Ulrika Winblad, and Gwyn Bevan. 2010. "Are health problems systemic? Politics of access and choice under Beveridge and Bismarck systems." *Health Economics, Policy and Law* 5:269–293.
- Papageorge, Nicholas W. 2016. "Why Medical Innovation is Valuable: Health, Human Capital, and the Labor Market." *Quantitative Economics* 7 (3):671–725.
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