Econ 372: Economics of Health Care Markets  
Spring 2017

Professor: Ian McCarthy  
Class: TTH 10:00 – 11:15am  
Room: WH 207  
Office: Rich 319  
Office Hours: TH 12:00pm – 3:00pm  
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Course Description

This course examines the industrial organization of health care markets in the U.S., including underlying theory, empirical findings, and related health care policy. We will study competition between healthcare providers, vertical integration among different providers (i.e., physicians and hospitals), and insurance markets.

Prerequisites: Economics 101 (Principles of Microeconomics), Math 111 (Calculus I) also suggested

Course Objectives

The broad goal of the class is to understand the structure of health care markets in the U.S. The course is designed around three modules: 1) horizontal integration and competition across healthcare providers; 2) vertical integration between hospitals and physicians; and 3) insurance markets and adverse selection. For each segment, we will develop the underlying theoretical model(s), cover recent empirical studies in the area, and discuss relevant health care policy. My goals are that, by the end of this course, you will be able to:

1. Understand the structure of the U.S. healthcare system, its main components, and its history
2. Discuss the motivation and subsequent effects of horizontal and vertical integration in healthcare
3. Understand the role of adverse selection in health insurance markets, and explain how this relates to the health insurance exchanges

Text and Other Materials

There is no required textbook for the class. There are, however, several required readings including selected chapters from various textbooks. All readings are available electronically on Canvas. A preliminary list of readings is provided below in the Course Outline, where starred items indicate required readings and non-starred items are recommended.

Course Topics

Below is a preliminary list of topics throughout the semester. We will work through these topics in order.

Module 1: Introduction to the Economics of Healthcare

In this first section of the course, we will discuss some of the broad themes of the U.S. healthcare market and its history.
Module 2: Horizontal Integration & Competition across Healthcare Providers

We will start this section of the course looking at several theoretical models of competition, first in horizontally differentiated markets and then with vertically differentiated markets. Most healthcare services will be vertically differentiated, but we can imagine some very routine services that might better fit into a model of horizontal differentiation. Our theoretical models will consider cases in which prices are fixed (e.g., set administratively by a government payer) and where prices are variable. With variable prices, this introduces the role of bargaining. We will then turn our attention to the empirical literature, focusing on studies of the effects of hospital mergers and current empirical methods used to evaluate hospital mergers in antitrust litigation.

Module 3: Vertical Integration between Hospitals and Physicians

This section will cover the relationship between hospitals and physicians, and the effects of increasing alignment between these entities. In particular, we will consider the underlying motivation for hospitals to employ physicians and vice versa, and the subsequent effects on prices and patient referral patterns.

- *Frank A Sloan and Chee-Ruey Hsieh. “Health economics”. In: MIT Press Books 1 (2012), Section 6.2
Module 4: Insurance Markets and Adverse Selection

Insurance markets are one of the more unique markets in economics due to the inherent relationship between a firm’s costs and the consumer’s willingness to pay. We will study these aspects theoretically, introduce the concepts and role of adverse (and advantageous) selection, and examine potential solutions to the adverse selection problem.


Assignments

**Homework and In-class Exercises**

For purposes of grading, this class is almost fully driven by homework and in-class assignments. In total, there will be 10 such assignments throughout the course. These assignments will consist of short answer questions ranging from calculus-based questions, comprehension questions based on class readings, and some data collection/policy questions. Homework assignments must be turned in at the beginning of the class for which the assignment is due. Late homework will not be accepted. In-class assignments will be completed entirely in class.

Details of any take-home assignments will be provided in advance on Canvas, and I generally allow at least 5 days to complete any take-home assignments. I anticipate no more than 4 in-class assignments. Preliminary dates for these assignments are as follows:

- Thursday, January 26
- Tuesday, February 21
- Tuesday, March 14
Case Study
Each of you will analyze data and prepare a 5-page report on a practical health economics problem. This semester, the case study concerns hospital contract negotiations. Details of the case study are available on Canvas. In your report, you must state the problem and scope of your work, analyze the underlying data, propose a strategy or solution going forward, and predict the effects of your proposal. Your report is due no later than April 20, 2017.

Discussion & Participation
You must earn 10 participation points in order to receive full participation credit for the semester. There will be three ways to earn participation points:

1. Every few weeks, we will have a discussion thread on Canvas related to a topic covered in class. Your participation in a discussion is worth one participation point. Here are the discussion rules. First, I will post a question over the weekend, and the forum will close by 5:00pm the following Friday. Over that week, you must respond with an original thought related to the question. By original, I simply mean that you have to read everyone else’s comments so that you don’t duplicate a prior point. Each comment should be related to the broad question originally posed as well as the most recent comment in the thread. And of course, comments must be respectful, classroom appropriate, etc. But outside of those basic ground rules, I encourage the comments to be relatively free-flowing. The important part is to have a class-wide discussion.

2. I will be having coffee at Kaldi’s coffee once a week, every Tuesday from 12:30pm to 2:00pm. Please come visit me and we can discuss any issues related to health economics. Each visit counts as one participation point.

3. We will have in-class quizzes roughly once every two to three weeks. For each quiz you complete, you will receive one participation point.

Communication
I will use Canvas to communicate with everyone regarding readings, assignments, and other class updates. As such, please check Canvas regularly (at least twice a week) for new information. For any specific questions you have regarding the class or health economics more generally, I am happy to meet with you and discuss in person. Unless otherwise announced, I will always be available during my office hours. But if these times do not work for you, just send me an email and we can schedule another time to meet. I will do my best to respond to all emails within 24 hours, but please allow more time over the weekend.

Evaluation
Final grades will be determined as follows:

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<thead>
<tr>
<th>Opportunity</th>
<th>Percent</th>
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</thead>
<tbody>
<tr>
<td>Participation</td>
<td>5</td>
</tr>
<tr>
<td>Homework</td>
<td>80 (8% each)</td>
</tr>
<tr>
<td>Case Study</td>
<td>15</td>
</tr>
</tbody>
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Your numeric grades will be translated into letter grades in accordance with the suggested grade distribution of the Emory economics department. Details of this policy can be found at: economics.emory.edu/home/undergraduate-major_minor_requirements.
Course Policies

Similar to a movie theater, we have a strict no cell phone, no computer policy in class. Please put your phones in airplane mode when you get to class, and I will do the same. The purpose of this policy is twofold: 1) these types of devices are extremely useful but also extremely distracting, and in my experience, I’ve found that our discussions are much more engaging and informative when we avoid these distractions; and 2) this is really just an issue of mutual respect, both for our time in class as well as your classmates. The more we can be engaged and respectful of one another, the more we’ll enjoy the class.

Academic Integrity and Honor Code

The Emory University Honor Code is taken seriously and governs all work in this course. Details about the Honor Code are available at www.college.emory.edu/current/standards/honor_code.html. By taking this course, you affirm that it is a violation of the code to cheat on exams, to plagiarize, to deviate from the instructions about collaboration on work that is submitted for grades, to give false information to a faculty member, and to undertake any other form of academic misconduct. You agree that the teacher is entitled to move you to another seat during examinations, without explanation. You also affirm that if you witness others violating the code you have a duty to report them to the honor council.