

Economics of Health Insurance

"In ease of the body and peace of the mind, all the different ranks of life are nearly upon a level, and the beggar, who suns himself by the side of the high way, possesses that security which kings are fighting for."
Adam Smith: The Theory of Moral Sentiments –

Time	05:00-8:50pm (Mondays)
Location	CPH 2016
Instructor	Etienne E. Pracht, Ph.D.
Voice/Fax	(813) 974-7609
e-mail	epracht@hsc.usf.edu
e-resources	www.hsc.usf.edu/~epracht
Office Hours	4:00-5:00pm Mondays
Textbook(s)	<ul style="list-style-type: none">Folland, Sherman, Allen C. Goodman, and Miron Stano, <u>The Economics of Health and Health Care</u> (4th Ed) Prentice Hall Inc., 2003.Matcha, Duane A. <u>Health Care Systems of the Developed World, How the United States' System Remains an Outlier</u> Praeger 2003

Course Description

Presents an overview of major health insurance issues, including demand, supply, employment based coverage, the uninsured, government sponsored programs, managed care, and national health. The analysis will be based on micro-economic tools and is intended for management- or policy-oriented students with an interest in health insurance and managed care. Prerequisites are PHC6430 or CI.

Course Objectives

Provide students with the microeconomic tools to critically evaluate issues pertaining to the demand for health insurance, insurance markets, the uninsured, public insurance programs, managed care, and national health insurance.

Each year Americans spend hundreds of billions of dollars on private health insurance premiums and government sponsored health insurance programs. Surprisingly, millions of Americans remain without any health insurance. What are the supply and demand dynamics of the health insurance market? What determines whether an individual gets insurance and how much insurance that person gets? What types of health insurance plans can these individuals select from? How are health insurance plan selections made? What is the government's role in the insurance market? How does managed care fit in this picture? How does American health insurance compare internationally?

In broadly defined terms, the purpose of this course is to systematically address these questions and provide the student with an understanding of the health insurance market structure, the incentive systems affecting market participation, and a simplified typography of the health insurance realm.

After successfully completing this course, students will be able to:

1. Discuss the U.S. Health Care market from a structural perspective.
2. Identify economic issues relevant to the health care policy debate.
3. Discuss health policy related concepts involving efficiency and equality.
4. Evaluate policies from an economic perspective.
5. Evaluate the health care market place from a "systems" perspective.
6. Evaluate the incentive structures underlying health care plans.
7. Evaluate the government and private sector roles pertaining to health insurance.
8. Compare the U.S. health care market place to that of other westernized countries.

Tests and grading:

1. Grades will be based on two exams (a midterm and a final) and one term paper. The term paper topic will be selected by each individual student with approval from the instructor.
2. Both exams will consist of approximately five essay questions.
3. Exams which are missed may be retaken only with a legitimate, or officially approved, excuse.

The grading procedure is as follows:

1. Midterm exam	30%
2. Final exam	40%
3. Project/Presentation	<u>30%</u>
	100%

Grading Scale:

There are 100 possible points during the course. **The course grade will be based on the cumulative score.** Grades will be assigned according to the following scale. A cumulative score falling in a particular range, as shown below, guarantees that score.

Cumulative Score Range	Guaranteed Grade	Cumulative Score Range	Guaranteed Grade
90 and above	A	60 – 69	D
80 – 89	B	59 and below	F
70 – 79	C		

Outline

Topic #1: Introduction

- A. Health Care Systems Concepts

Topic #2: The demand for health insurance

- A. Risk Aversion and the Demand for Health Insurance
 - Folland (2004) Chapter 7: “Demand and Supply of Health Insurance”
 - Folland (2004) Chapter 11: “The Organization of Health Insurance Markets”
- B. Moral Hazard
 - Folland (2004) Chapter 7: “Demand and Supply of Health Insurance”
 - Arrow, Kenneth J., “Uncertainty and the Welfare Economics of Medical Care,” *The American Economic Review*, LIII (5), December 1963: 941-969 ([online](#))
 - Pauly, Mark V., “The Economics of Moral Hazard: Comment,” *American Economic Review*, 58, June 1968: 531-37 ([online](#))
 - Manning, Willard G, et al., “Health Insurance and the Demand for Medical Care: Evidence from a randomized experiment,” *American Economic Review*, June 1987, Volume 77, Number 3: 251-277 ([online](#))

Topic #3: Employment-Based Health Insurance

- Folland (2004) Chapter 11: “The Organization of Health Insurance Markets”
- Henry S. Farber and Helen Levy, “Recent trends in employer-sponsored health insurance coverage: are bad jobs getting worse?” *Journal of Health Economics* 19 (2000) 93-119 ([online](#))
- Alan B. Krueger and Uwe E. Reinhardt, “The Economics of Employer Versus individual Mandates,” *Health Affairs*, Spring 1994 (13): 34-53.

Topic #4: Managed Care

- A. Insurance Markets
 - Folland et al. (2004) Chapter 12: “Managed Care”
- B. Performance of Managed Care
 - Luft, Harold S., “How do Health-Maintenance Organizations Achieve Their ‘Savings’?”, *The New England Journal of Medicine*, 298, (June 15, 1978), pp. 1336-1343
 - Miller, Robert H. and Harold S. Luft, “Managed Care Plan Performance Since 1980: A literature Analysis,” *JAMA*, 271, May 18, 1994: 1512-19.
 - Miller, Robert H. and Harold S. Luft. “” 1997
 - Miller, Robert H. and Harold S. Luft. “HMO Plan Performance Update: An Analysis of the Literature, 1997-2001,” *Health Affairs* 21 (4): 63-86


Topic #5: Government Sponsored Insurance programs

- A. Medicaid & Medicare: An Overview
 - Folland et al. (2004) Chapter 20: “Social Insurance”
- B. On crowding out (private vs. public health insurance).

- Moffitt, Robert and Barbara L. Wolfe, “Medicaid, Welfare Dependency, and Work: Is There a Causal Link?” *Health Care Financing Review*, 15 (1) Fall 1993: 123-133 ([online](#))
- Cutler, David M. and Jonathan Gruber, “Does Public Insurance Crowd Out Private Insurance,” *Quarterly Journal of Economics*, 111 (2) 1996: 391-430.
- Dubay, Lisa and Genevieve Kenney, “Did Medicaid Expansions For Pregnant Women Crowd Out Private Coverage?” *Health Affairs*, 16 (1) Jan/Feb 1997: 185-193
- **(Recommended)** Cutler, David M. and Jonathan Gruber, “Medicaid and Private Insurance: Evidence and Implications” *Health Affairs*, 16 (1) Jan/Feb 1997: 194-200.
- Curtis, Richard, Mark Merlis and Ann Page, “Finding Practical Solutions To 'Crowding Out,'” *Health Affairs*, 16 (1) Jan/Feb, 1997: 201-206.
- Kevin N. Rask and Kimberly J. Rask, “Public insurance substituting for private insurance: new evidence regarding public hospitals, uncompensated care funds, and medicaid,” *Journal of Health Economics* 19 (2000) 1 – 31 ([online](#))

Topic #6: The Uninsured

- Marquis, M. Susan and Stephen H. Long, “Worker Demand for Health Insurance in the Non-Group Market,” *Journal of Health Economics*, 14, 1995: 47-63 ([online](#))
- Jean M. Mitchell and Stephen A. Norton, “Provider Assessments, the Uninsured, and Uncompensated Care: Florida’s Public Medical Assistance Trust Fund,” *The Milbank Quarterly* 74 (4) 1996: 545-569
- Hadley, Jack and John Holahan (February 2003) “How much medical care do the uninsured use, and who pays for it?” *Health Affairs – Web Exclusive*: W3-66 – W3-81 ([online](#))



Exam I

Topic #7: Health Care Systems

- Folland et al. (2004) Chapter 21: “Comparative Health Systems and Health System Reform”
- 1. Germany: “Die Gesetzliche Krankenversicherung”
 - Matcha, Duane A. Health Care Systems of the Developed World, How the United States’ System Remains an Outlier Praeger 2003, Chapter 5 – Germany
- 2. Canada: “National Health Insurance”
 - Matcha, Duane A. Health Care Systems of the Developed World, How the United States’ System Remains an Outlier Praeger 2003, Chapter 3 – Canada
- 3. United Kingdom: “National Health Service”
 - Matcha, Duane A. Health Care Systems of the Developed World, How the United States’ System Remains an Outlier Praeger 2003, Chapter 4 – United Kingdom
- 4. Sweden: “The Swedish Health Care System”
 - Matcha, Duane A. Health Care Systems of the Developed World, How the United States’ System Remains an Outlier Praeger 2003, Chapter 6 – Sweden
- 5. Japan: The Japanese Health Care System”
 - Matcha, Duane A. Health Care Systems of the Developed World, How the United States’ System Remains an Outlier Praeger 2003, Chapter 7 – Japan



Exam II



Project: designing a national health insurance system for the United States

The objective of this project is to synthesize the material discussed during the class into a proposal for a health insurance system for the United States. The exercise is designed to expand and hone the students' understanding of the financial and organizational aspects of the U.S. system. What lessons (positive as well as negative) can we learn from other countries? What changes would be (a) ideal, and (b) feasible within the context of current political and cultural realities?

While financing of the system is the focus, the project should address relationships among all major components of a health care system, including

1. Management
 - a. At what level will administration take place?
 - b. Who (which bodies) have regulatory authority?
 - c. How is health planning conducted?
2. Resource production
 - a. Development of sufficient person power
 - b. Development of sufficient facilities
 - c. Production of commodities
 - d. Production of research and knowledge needed for medical practice and advancement of medicine
3. Organization of programs
 - a. A hierarchical structure outlining relationships within and between public and private components of the system
 - b. Extent of dependent/independence between public and private components
4. Economic support
 - a. How is funding established?
 - b. Who pays? Who does not pay?
 - c. Are contributions mandatory or voluntary?
5. Delivery of services
 - a. Which services will be covered?
 - b. Which services will be emphasized?
6. Monitoring Quality

Other issues that need to be considered:

- a. Rationing of services
- b. Cost containment
- c. Access and quality
- d. Secondary effects of the proposed plan (i.e. how are non-health sectors of the economy affected?)

Format

Every student must turn in their own project, consisting of five segments (see above). While this is not a group project, collaboration among students is encouraged. Time will be set aside (at least 1 hour during five sessions) to discuss each of the main components (see above). If ideas are "borrowed" from a colleague, appropriate credit (a citation/acknowledgement) must be included in the project text. All claims and policy suggestions must be clearly rationalized and appropriately referenced.

INSTITUTIONAL POLICIES

Link to Student Handbook	http://www.sa.usf.edu/handbook/
Student Conduct	http://www.sa.usf.edu/handbook/rights/StudentCodeofConduct.htm
Academic Dishonesty	http://www.grad.usf.edu/newsite/catalog/main.asp Click on section 6 "Academic Policies"
Special Accommodations	http://www.sds.usf.edu/Students.htm http://www.sds.usf.edu/faculty.htm http://www.asasd.usf.edu/index.htm
Holidays/Religious Observances	http://www.sa.usf.edu/handbook/policies/ReligiousPracticesPolicy.htm

ADDITIONAL RESOURCES

Library Resources	'How to Find a Journal Article' http://itt.usf.edu/publichealth/library/tutorial/index.html USF Library Resources and Services: http://www.lib.usf.edu
Plagiarism	The University of South Florida has an account with an automated plagiarism detection service which allows instructors to submit student assignments to be checked for plagiarism. I reserve the right to 1) request that assignments be submitted to me as electronic files and 2) electronically submit assignments to Turnitin.com. Assignments are compared automatically with a huge database of journal articles, web articles, and previously submitted papers. The instructor receives a report showing exactly how a student's paper was plagiarized. For more information, go to www.turnitin.com and http://www.ugs.usf.edu/catalogs/0304/adadap.htm#plagiarism . Tutorial on Plagiarism for Students: http://www.cte.usf.edu/plagiarism/plag.html
How to Create a Citation	http://owl.english.purdue.edu/handouts/research/r_apa.htm#General%20Format
APA Style	http://www.isr.bucknell.edu/img/assets/6535/apa.pdf http://www.apastyle.org

May						
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