

St George: 2010-11

Economics 369: Health Economics

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Office Hours: Thursday, 11-12

The course is an application of economics to the analysis of the production and consumption of resources in the health care sector. **You will be expected to know the material from Economics 200 (Micro) or an equivalent course.** The Phelps' textbook is not very theoretical but the lectures will assume more knowledge of microeconomics. There is considerable empirical evidence in health economics. **Material from Economics 220 or an equivalent statistics course will be helpful.** We will spend time discussing empirical studies in health economics.

Two issues are very important in healthcare. Uncertainty exists in several areas of health economics and consequently insurance is a major topic. We will consider the problems in designing an insurance plan for healthcare. Notice that we can not insure health but only health care expenses. Second, consumers use agents (doctors) and the control of agents is important. Do doctors make 'good' decisions?

Special Topics: Each year, we consider some special issues that are topical in health economics. We will consider evidence on the role played by chronic diseases and activity limitations in determining health. There is very little decline in health for individuals without chronic disease and activity limitations. This evidence is related to the concern that there are health gradients with respect to income and education. Those with low incomes and levels of education are in worse health. What do we know about this issue?

Measuring Health Status is very difficult. We will spend considerable time investigating how to measure it. This includes finding a numerical value for a life and a life-year.

Canadian Content: There are no Canadian Health Economics text books. For each topic, we will discuss in class the Canadian context. Most health economics issues arise in all countries. In fact, I will try to argue that we want to look at many of the issues in all OECD countries. There is a wide variety of international efforts to deal with the same problems. Too often contrasts and policy debates focus on only the Canada vs US differences.

Textbooks:

1. *Health Economics*, Charles Phelps, 4rd Edition, Addison Wesley, 2009
2. *Your Money or Your Life*, David Cutler, Oxford University Press, 2004
3. Additional articles will be placed on the course web site.

Other Sources (for reference only):

The Economics of Health and Health Care, S. Folland, A.C. Goodman and M. Stano, Prentice Hall,
- alternative text book, better than Phelps in some aspects and worse in others.

Grading: Two Term Tests - 30% each

First test on Feb 10th and second in March

Final Exam - 40%

If you miss a test, medical notes are required within one week. You must record your absence on ROSI and include a copy of this notification with your medical note. To be considered, an illness must render the student incapacitated and unable to take the exam. Vague illnesses such as "gastroenteritis", "fever", "inability to concentrate" will not be considered. In addition, in order for a doctor's note to be accepted, the illness must be immediately verifiable to the doctor. Illnesses of the "student claims to be..." will not be accepted. In addition, "anxiety" or "stress" is no longer an acceptable excuse.

If you miss a test, there will be no make-up test. The weights from the missed test will be distributed across the other tests. For example, suppose you miss Test One. The new weights will be (3/7) for Test Two and (4/7) for the Final.

The course is not technically difficult but does require that you read and understand the material. Most questions are essay questions which require that you synthesize the important aspects of the course. Old tests and finals will be available on the web site.

Outline: Incomplete - Only covers the Phelps book.

1. Introduction - *These chapters are your responsibility.* The first two are introductions to health economics.

Phelps: Ch. 1, 2

2. The Production of Health – This topic is important and extra material will be provided. Inefficient production may be one of the most important health economics problems.

Phelps: Ch. 3

3. The Demand for Medical Care – For most policy questions it is important to know how demand varies. These two chapters develop the conceptual basis and empirical evidence on the demand for health care.

Phelps: Ch. 4 and 5

4. Risk, Uncertainty and Insurance – We will go far beyond the material in this chapter using extra handouts. Designing the right insurance program is a very important problem in health economics

Phelps: Ch. 10

5. The Physician – Doctors act as agents for patients and control the use of health care resources. These chapters consider a variety of aspects of the supply and demand behaviour of doctors.

Phelps: Ch. 6 and 7;

6. The Hospital - Hospitals use the largest share of health care expenses. There are questions about how they are operated and what incentives they have to be efficient.

Phelps: Ch. 8 and 9;

7. *Cutler book will be done here* – All of book will be used. Cutler is the best health economist. His book is written for a broad audience. We use it to consider current problems in health policy and their possible solution.

8. Prescription Drug Insurance: – Canada’s public medicare does not include prescription drug insurance. Readings will be provided and we will analyse alternative possible plans.

9. Externalities and Regulation - These topics will be covered if time permits

Phelps: Ch. 14 and 15