College of Commerce
Division of Economic and Financial Studies

UNIT OUTLINE

ECON312: HEALTH ECONOMICS

Semester 1, 2007

Glenn Jones
Unit convenor

ECON312 HEALTH ECONOMICS

1. ABOUT THIS UNIT

This is a course in applied public economics. It uses microeconomics to analyse the behaviour of agents in the health system. It will use this analysis to examine current health policy, as well as proposed directions for reform. A feature of the course will be an emphasis on data and measurement.

Topics covered include: the institutions of the Australian system of health care; health statistics and evaluation techniques, moral hazard and adverse selection in health insurance markets; health labour markets, including physician-patient interactions; managed care; regulation and payment systems for providers; comparative health systems.

ECON200 Microeconomic Analysis is a prerequisite for ECON312 and it would be helpful (but not necessary) for students to be familiar with the material presented in ECON210 Public Economics.

The course places strong emphasis on developing analytical and theoretical skills as a means of encouraging rigorous and logical thinking about the analysis and design of health systems. It does not however require detailed econometrics nor high level mathematics.

Unit goals

After completing the unit students should:

- be familiar with the range of health policy interventions used in Australia and other countries.
- be familiar with the empirical magnitudes of important issues in the health literature
- be able to assess the efficiency impacts of policy changes.
- be able to assess the equity impacts of policy changes.
- be familiar with the major sources of data on health.

Generic skills

The unit will aim to develop generic skills including:

- literacy, numeracy
- team work and efficient collaboration
- effective presentation of knowledge and thought
- critical analysis involving evaluation, synthesis and judgement
- problem-solving skills
- identification of incentives and constraints as a common framework for apparently unrelated problems.

All of these skills will be enhanced by the lecture and tutorials, which deal specifically with public economics and which present material central to a contemporary understanding of the socio-economic environment.

2. TEACHING STAFF

Glenn Jones (unit convenor)
Consultation hours: Tuesday 16.00 – 18.00 and Wednesday 16.00 – 18.00
Room: E4A 429
Phone:9850 8500
Email: glenn.jones@mq.edu.au

3. LECTURES

The lectures will be given:

Tuesday 13.00 – 15.00 E5A107

During the semester, any changes will be announced as far as possible in advance.

Copies of the lecture overheads will be available on the unit web page before the Wednesday lecture

4. TUTORIALS

The tutorial program in ECON312 aims to explain and extend some of the material covered in lectures and to allow an opportunity for an in depth discussion of a particular aspect of the course.

Expected enrolment in this unit suggests that only 1 tutorial will be necessary and this will be following the lecture.

Tuesday 15.00 E5A107

The tutorials will not be held every week. There will be eight tutorials in the semester. Tutorials will count towards 20% of the total grade in the unit. Tutorials do not begin until week three of the semester.

Tutorials will require students to prepare and present in a group a paper assigned for the tutorial. These papers are available on e reserve in the library.

Details of the tutorial requirements and assessment can be found in the ECON312 Tutorial Guide.

5. ASSESSMENT

The components of assessment in this course are as follows:

	%
Mid-semester Test 1	10
Mid-semester Test 2	10
Tutorials	20
Exam	60
Total	100

The two mid-semester tests will be of short answer format. They will each be of one hour's duration and will take place in the tutorial time and room in the weeks

indicated in the course diary. The tests will examine the subject matter of the first three lectures and second five lectures respectively.

The tutorial component will be comprised of two marks. 10% will be awarded for discussion of one assigned health paper and 10% for class participation.

The final examination will be of two hours duration and will require students to answer a choice of four essay style questions from a total of eight questions.

It is a requirement that to pass the unit, students must pass the final examination.

Students are reminded of University rules governing requests for special consideration when illness, misadventure or other cause prevents attendance at tutorials, affects the submission of work or impairs performance in examinations.

Please submit requests for special consideration for within semester assessment directly to the unit convenor, not to the Registrar. Requests for special consideration for the final examination must be submitted to the Registrar.

6. UNIT WEB PAGE:

http://www.econ.mq.edu.au/courses/econ312/index.htm

Students are encouraged to use the discussion facilities available through the web page and to contact the unit convenor in person, by email or phone.

While all matters affecting the unit will be posted on the web page, direct email contact is a convenient way for the convenor to contact students concerning unforseen changes to lectures or tutorials at short notice. To facilitate this contact students are requested to email the convenor during the first week of lectures so that the often incomplete record of student contact emails may be corrected.

7. COURSE DIARY 2007

WEEK	DATE	LECTURE TOPIC	TUTORIAL
1	February 27	Introduction	
2	March 6	Production of health	
3	March 13	Demand for health care	Tutorial 1
4	March 20	Insurance	Tutorial 2
5	March 27	Asymmetric information and agency	Test 1
6	April 3	Health insurance markets	Tutorial 3
		MID-SEMESTER BREAK	
7	April 24	Managed Care	Tutorial 4
8	May 1	Hospitals	
9	May 8	Labour markets and supplier induced demand	Tutorial 5
10	May 15	The pharmaceutical industry	Test 2
11	May 22	Health policy and regulation 1	Tutorial 6
12	May 29	Health policy and regulation 2	Tutorial 7
13	June 5	Comparative health care systems	Tutorial 8

8. TEXT AND REFERENCES

The recommended text, ordered at the bookshop is:

Folland, S., A. Goodman and M. Stano, (2007) *The Economics of Health and Health Care,* (5th Ed) Upper Saddle, Prentice Hall

Alternative Texts and Readings

Culyer, A. (1991) *The Economics of Health: Readings, vols 1 and 2*

Donaldson, C and K. Gerard, (2004) *Economics of Health Care Financing*, 2nd ed, Edward Elgar.

Getzen, T. (2004) *Health Economics*, John Wiley.

McPake, B., L. Kumaranayake and C. Normand, (2002) *Health Economics: An International Perspective*, Routledge.

Phelps, C. (2003) *Health Economics (3rd ed)*. Boston, Addison Wesley.

Zweifel, P. and F. Breyer (1997) *Health Economics*, New York, Oxford University Press.

Major Reference Work

Culyer, A. and J. Newhouse (eds) (2000), *Handbook of Health Economics, vols 1 and 2*, Amsterdam, North Holland, Elsevier Science.

References on the Australian Health System

Australian Institute of Health and Welfare (2004). Australia's Health 2004 Canberra, AIHW.

Bloom A (ed) (2001) Health Reform in Australia and New Zealand, Melbourne, Oxford University Press.

Butler, J. and D. Doessel (eds) (1989) *Health Economics :Australian readings Sydney,* Australian Professional Publications.

Crichton, A. (1990) *Slowly Taking Control: Australian governments and health care provision 1788-1988*, Sydney, Allen and Unwin.

Drummond, M., M. Sculpher, G. Torrance, B. O'Brien and G. Stoddart, (2005) *Methods for the Economic Evaluation of Health Care Programmes, 3rd ed,* Oxford University Press.

Duckett, Stephen. 2004. The Australian health care system. (2nd ed), Melbourne, Oxford University Press.

Hall. J. (2003) Health in I. McAllister, S. Dowrick, and R. Hassan (eds), *Cambridge Handbook of Social Sciences in Australia*, Cambridge, Cambridge University Press.

Hall, J and E. Savage (2005) Role of the Private Sector in the Australian Health Care System in A. Maynard (ed) *The Private-Public Mix for Health*, Oxford, Radcliffe Press.

Mooney, G and R. Scotton, (1999) *Economics and Australian Health Policy*, Allen and Unwin.

Other References

Drummond, M., M. Sculpher, G. Torrance, B. O'Brien and G. Stoddart, (2005) *Methods for the Economic Evaluation of Health Care Programmes, 3rd ed,* Oxford University Press.

Maguire, A, P. Fenn, and K. Mayhew (1995) *Providing Health Care: The economics of Alternative Systems of Finance Delivery*, New York, Oxford University Press.

Maynard, A, (ed) (2005) *The Private-Public Mix for Health,* Oxford, Radcliffe Press.

Zweifel, P and H. Frech (1991) *Health Economics Worldwide: Developments in Health economics and Public Policy*, Kluwer Academic Press.

8. LECTURE OUTLINE

<u>Lecture 1.</u> Introduction

Relevance of health economics
Economic analysis applied to health care
Special features of health economics
Revision of assumed microeconomics
Revision of assumed econometrics

Folland, Goodman and Stano: Chapters 1, 2 and 3

Arrow, K. (1963) Uncertainty and the Welfare Economics of Medical Care, *American Economic Review,* 53(5) 941-973.

<u>Lecture 2.</u> Production of health

Health production function
Medicine and health care
Other factors affecting health
Substitution
Health cost functions
Technical efficiency
Technological change

Folland, Goodman and Stano: Chapters 5 and 6

Wolfe, B, (1986) Health Status and Medical Expenditures: Is There a Link?, *Social Science and Medicine*, 22, 993-999.

<u>Lecture 3.</u> Demand for health care

Determinants of demand for health care
Issues in measurement
Empirical magnitudes
Other factors

Folland, Goodman and Stano: Chapter 9

Gerdtham, U and M. Johannesson, (1999) New Estimates of the Demand for Health: Results Based on a Categorical Health Measure and Swedish Micro Data, *Social Science and Medicine*, 49, 1325-1132.

<u>Lecture 4.</u> Insurance

Risk and insurance
Demand for insurance
Supply of insurance
Moral hazard
Coinsurance and efficiency

Folland, Goodman and Stano: Chapter 8

Feldstein, M. (1973) The Welfare Loss of Excess Health Insurance, *Journal of Political Economy*, 81(2), Part 1,.251-280;

<u>Lecture 5.</u> Asymmetric information and agency

Asymmetric information
Adverse selection
Experience rating
Agency
Consumer information quality and prices

Folland, Goodman and Stano: Chapters 8 and 10

Buchmueller, T. and J. DiNardo (2002) Did Community Rating Induce an Adverse Selection death Spiral? *American Economic Review*, 92(1) 280-294

<u>Lecture 6</u>. Health insurance market in Australia

Evolution of Australian health policy
Hospitals
General Practitioners
Pharmaceuticals
Public coverage
Private health insurance
PBS

Folland, Goodman and Stano: Chapter 11

Ellis, R. and E. Savage (2005) Where do you run after you run for cover? The impact on premium changes on the characteristics of the privately insured in Australia, Centre for Health Economics Research and Evaluation, Working Paper, University of Technology Sydney.

<u>Lecture 7.</u> Managed care

Managed care plans
Modelling managed care
Does manged care matter?
Growth in spending
Comparative effects.

Folland, Goodman and Stano: Chapter 12

Miller R. and H. Luft, (2002) HMO Plan Performance Update: An Analysis of the Literature: 1997-2001, *Health Affairs*, 21(4), 63-86.

<u>Lecture 8.</u> Hospitals

Overview
Hospital utilisation and costs
Nursing homes
Hospices and home care.

Folland, Goodman and Stano: Chapters 13 and 14

Dranove, D., M. Shanley, and C. Simon, (1992) Is Hospital Competition Wasteful, *Rand Journal of Economics*, 23(2). 247-262.

<u>Lecture 9.</u> Labour markets and supplier induced demand

Demand for health care labour
Supply of health care labour
Productivity and substitution
Manpower planning and shortages
Medical education and control
Licensing
Supplier induced demand
Small area variations.

Folland, Goodman and Stano: Chapters 15 and 16

Shields, M. and M. Ward (2001), Improving Nurse Retention in the National Health Service in England: The Impact of Job Satisfaction and Intentions to Quit *Journal of Health Economics* 20(5), 677-01.

<u>Lecture 10.</u> The pharmaceutical industry

Structure and regulation
Substitutability
Drug pricing and profits
Research and development
Cost containment and copayments

Folland, Goodman and Stano: Chapter 17

Wright, D. (2004) The Drug Bargaining Game: Pharmaceutical regulation in Australia, *Journal of Health Economics*, 23(4), 785-813.

<u>Lecture 11.</u> Health policy and regulation 1

Efficiency and competitive markets
Competition in health care
Externalities
Horizontal equity and need
Social justice
Rationales for government intervention
Forms of intervention
Government failure
Competitive strategies

Folland, Goodman and Stano: Chapter 18 and 19

van Doorslaer, E. and A. Wagstaff (1992) Equity in the Delivery of Health Care: Some International Comparisons, *Journal of Health Economics*, 11(4), 389-411.

<u>Lecture 12.</u> Health policy and regulation 2

Principal regulatory mechanisms
Prospective payment
DRGs and competition
Regulation of physician payment
Social insurance

Folland, Goodman and Stano: Chapters 4, 20 and 21

Ellis, R. and T. McGuire, (1986) Provider Behavior under Prospective Payment: Cost Sharing and Supply. *Journal of Health Economics*, 5(2):129-152.

<u>Lecture 13.</u> Comparative health care systems

International Health Systems
Spending
Insurance
Access
Costs

Folland, Goodman and Stano: Chapter 22

Cutler. D. (2002) Equality, Efficiency, and Market Fundamentals: The Dynamics of International Medical Care Reform, *Journal of Economic Literature,* 40, 881-906.

EXAMINATIONS

The University Examination period in First Half Year 2007 is from *13/06/2007* to *29/06/2007*.

You are expected to present yourself for examination at the time and place designated in the University Examination Timetable. The timetable will be available in Draft form approximately eight weeks before the commencement of the examinations and in Final form approximately four weeks before the commencement of the examinations.
http://www.timetables.mq.edu.au/exam

The only exception to not sitting an examination at the designated time is because of documented illness or unavoidable disruption. In these circumstances you may wish to consider applying for Special Consideration. Information about unavoidable disruption and the special consideration process is available at
http://www.reg.mq.edu.au/Forms/APSCon.pdf

If a Supplementary Examination is granted as a result of the Special Consideration process the examination will be scheduled after the conclusion of the official examination period. (Individual Divisions may wish to signal when the Division's Supplementary examinations are normally scheduled.)

You are advised that it is Macquarie University policy not to set early examinations for individuals or groups of students. All students are expected to ensure that they are available until the end of the teaching semester, that is the final day of the official examination period.

PLAGIARISM

The University defines plagiarism in its rules: "Plagiarism involves using the work of another person and presenting it as one's own." Plagiarism is a serious breach of the University's rules and carries significant penalties. You must read the University's practices and procedures on plagiarism. These can be found in the Handbook of Undergraduate Studies or on the web at: http://www.student.mq.edu.au/plagiarism/

The policies and procedures explain what plagiarism is, how to avoid it, the procedures that will be taken in cases of suspected plagiarism, and the penalties if you are found guilty. Penalties may include a deduction of marks, failure in the unit, and/or referral to the University Discipline Committee.

UNIVERSITY POLICY ON GRADING

Academic Senate has a set of guidelines on the distribution of grades across the range from fail to high distinction. Your final result will include one of these grades plus a standardised numerical grade (SNG).

On occasion your raw mark for a unit (i.e., the total of your marks for each assessment item) may not be the same as the SNG which you receive. Under the Senate guidelines, results may be scaled to ensure that there is a degree of comparability across the university, so that units with the same past performances of their students should achieve similar results.

It is important that you realise that the policy does not require that a minimum number of students are to be failed in any unit. In fact it does something like the opposite, in requiring examiners to explain their actions if more than 20% of students fail in a unit.

The process of scaling does not change the order of marks among students. A student who receives a higher raw mark than another will also receive a higher final scaled mark. An exception to this rule may occur (though it is unlikely) in the grading of units with a requirement that students are required to pass a specific component of the unit, such as the final exam.

For an explanation of the policy see
http://www.mq.edu.au/senate/MQUonly/Issues/Guidelines2003.doc or
http://www.mq.edu.au/senate/MQUonly/Issues/detailedguidelines.doc.

STUDENT SUPPORT SERVICES

Macquarie University provides a range of Academic Student Support Services. Details of these services can be accessed at *http://www.student.mq.edu.au.*