

# Industrial Organization

## Topics in Health Economics

Graduate program of the Department of Economics UC3M

2015-2016

Prof. Matilde P. Machado

### 1. Introduction <sup>1</sup>

- Arrow, Kenneth, J. (1963). “Uncertainty and the Welfare Economics of Medical Care.” **American Economic Review**, 53: 941-73.

### 2. Demand for Health Care

#### *2.1 Moral Hazard*

- Pauly, Mark (1968) “The Economics of Moral Hazard: comment,” **American Economic Review**, 58(3): 531-537
- Manning, W. G. et al. (1987). “Health Insurance and the Demand for Medical Care: Evidence from a Randomized Experiment.” **American Economic Review**. 77: 251-277.
- Aron-Dine, Aviva, Einav, Liran and Finkelstein, Amy (2013): “The Rand Health Insurance Experiment Three Decades Later,” **Journal of Economic Perspectives**, vol 27(1), pp 197-222.
- Finkelstein, Amy et al. (2012): “The Oregon Health Insurance Experiment: Evidence from the First Year.” **Quarterly Journal of Economics**. Vol. 127 (3), 1057-1106
- Barros, Pedro P., Machado, Matilde P., and Sanz-de-Galdeano, Anna: “Moral hazard and the demand for health services: a matching estimator approach,” **Journal of Health Economics**, vol 27, July 2008, pp 1006-1025.

#### *2.2 Adverse Selection and Risk Selection*

- Einav, Liran and Amy Finkelstein (2011): “Selection in Insurance Markets: Theory and Empirics in Pictures,” **Journal of Economic Perspectives**, 25(1): 115-138.
- Rothschild, Michael and Joseph E. Stiglitz (1976). “Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information.” **Quarterly Journal of Economics** 90(4): 630-49.

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<sup>1</sup> Papers are listed in the order they are to be studied in class.

### *Testing for Adverse Selection*

- Chiappori, P.A. y Salanié, B. (2000): “Testing for Asymmetric Information in Insurance Markets.” **Journal of Political Economy**, vol 108, 56-78.
- Vera, Marcos, Olivella, Pau: “Testing for Adverse Selection into Private Medical Insurance,” **The Economic Journal**, 123, 96-130 (or IFS Working paper WP06/02). (*This paper was awarded the Royal Economic Society Prize for the best unsolicited paper published in The Economic Journal in 2013.*)

#### Additional readings for first part of the course:

Cutler, David M. and Zeckhauser, Richard J. (2000): “The Anatomy of Health Insurance,” in **Handbook of Health Economics**, Vol. 1, A. J. Culyer and J. P. Newhouse (Eds).

## **3. Supply of Health goods and services**

### **3.1. The Effect of Health Insurance Mandates**

- Gruber, Jonathan (1994): “The Incidence of Mandated Maternity Benefits,” **The American Economic Review**, Vol. 84, No. 3 (Jun., 1994), pp. 622-641 (*This paper was the Arrow Award winner for the best published paper in Health Economics in 1995.*)

### **3.2. Comparing the performance of Health Care Providers**

- Gowrisankaran, Gautam and Town, Robert (1999) – “Estimating the Quality of Care in Hospitals using Instrumental Variables,” **Journal of Health Economics**, 18, pp 747-67.

### **3.3. Competition and Information**

- Dranove, David, Kessler, Daniel P., McClellan, Mark, and Satterthwaite, Mark (2003). “Is More Information Better? The Effects of ‘Report Cards’ on Health Care Providers,” **Journal of Political Economy**, 111(3): 555-588.

### **3.4. Reaction of Suppliers to financial Incentives**

- Mullen, K.J., Frank, Richard G., and Rosenthal, Meredith B. (2010): “Can you get what you pay for? Pay-for-performance and the quality of healthcare providers,” **The Rand Journal of Economics**, Vol. 41, N° 1, 64-91.

#### Additional readings:

Gaynor, Martin, Ho, Kate and Town, Robert J. (2015): “The Industrial Organization of Health Care Markets,” *Journal of Economic Literature*, 53(2), 235-284.

**Course Evaluation:** Final exam and presentation of a paper from a list of published papers in health economics.

**List of papers for class presentations from which students can select:**

- (1) Chiappori, Pierre-André, Durand, Frank, Geoffard, Pierre-Yves (1998): “Moral Hazard and the Demand for physician services: First Lessons from a French Natural Experiment,” *European Economic Review*, 42, pp 499-511.
- (2) Glazer, Jacob, McGuire, Thomas G., and Joseph P. Newhouse (2007): “Using Performance Measures to Motivate ‘report-adverse’ and ‘report-loving’ agents,” *Journal of Health Economics*, 26, 1170-1189.
- (3) Beakley, Hoyt (2007): “Disease and Development: Evidence from Hookworm Eradication in the American South,” *QJE*, February 2007.
- (4) Chandra, Amitabh and Staiger, Douglas O. (2007): “Productivity Spillovers in Health Care: Evidence from the treatment of heart attacks,” *JPE*, vol 115(1), pp 103-140. ***This paper was the Arrow Award winner for the best published paper in Health Economics in 2007.***
- (5) Finkelstein, Amy (2007): “The aggregate effects of Health Insurance: Evidence from the Introduction of Medicare,” *QJE*, February 2007
- (6) Iizuka, Toshiaki (2007): “Experts’ agency Problems: Evidence from Japan” *RAND Journal of Economics*, 38(3), 844-862.
- (7) Card, David, Dobkin, Carlos and Nicole Maestas (2008): “The Impact of Nearly Universal Insurance Coverage on Health Care Utilization: Evidence from Medicare” *AER*, 98(5), 2242-2258.
- (8) Fang, Hanming, Keane, Michael P., and Dan Silverman (2008): “Sources of Advantageous Selection: Evidence from the Medigap Insurance Market,” *JPE*, 116(2), 303-350. ***This paper was the Arrow Award winner for the best published paper in Health Economics in 2008.***
- (9) Currie, Janet, Neidell, Matthew, and Johannes F. Schmieder (2009): “Air Pollution and Infant Health: Lessons from New Jersey,” *Journal of Health Economics*, 28, 688-703.
- (10) Propper, Carol and Van Reenen, John (2010): “Can Pay Regulation Kill? Panel Data Evidence on the Effect of Labor Markets on Hospital Performance”, *Journal of Political Economy*, 118(2), 222-273. ***This paper was the Arrow Award winner for the best published paper in Health Economics in 2010.***
- (11) Almond, Douglas, Doyle, Joseph J., Kowalski, Amanda E., Williams, Heidi (2010): “Estimating Marginal Returns to Medical Care: Evidence from at-risk Newborns,” *The Quarterly Journal of Economics*, May 2010

- (12) Miller, Grant and B. Piedad Urdinola (2010): “Cyclicalities, Mortality, and the Value of Time: The Case of Coffee Price Fluctuations and Child Survival in Colombia,” *The Journal of Political Economy*, vol 118, No. 1, 113-155.
- (13) Cebul, Randall D., Rebitzer, James B., Taylor, Lowell J., Votruba, Mark E. (2011): “Unhealthy Insurance Markets: Search Frictions and the Cost and Quality of Health Insurance,” *American Economic Review*, 101, 1842-1871. ***This paper was the Arrow Award winner for the best published paper in Health Economics in 2011.***
- (14) Kolstad, Jonathan T. (2013): “Information and quality when motivation is intrinsic: evidence from surgeon report cards,” *American Economic Review* 103(7): 2875-2910. (<http://dx.doi.org/10.1257/aer.103.7.2875>) ***This paper was the Arrow Award winner for the best published paper in Health Economics in 2013.***
- (15) Propper, Carol, Burgess, Simon M. and Gossage, Denise (2008): “Competition and Quality: Evidence from the NHS Internal Market 1991-9,” *Economic Journal* 118 (525): 138-170.

**Complementary reading/references on Econometric Methods (Not to be chosen for Presentations):**

- (1) Abadie, Alberto and Javier Gardeazabal (2003): “The Economic Costs of Conflict: A Case Study of the Basque Country”, *American Economic Review*, 93(1), 112-132.
- (2) Abadie, Alberto, Diamond, Alexis, and Jens Hainmueller (2010): “Synthetic Control Methods for Comparative Case Studies: Estimating the Effect of California’s Tobacco Control Program,” *Journal of the American Statistical Association*, 105(490), Applications and Case Studies.
- (3) Bound, John, Jaeger, David A., and Baker, Regina (1993): “The cure can be worse than the disease: A cautionary tale regarding instrumental variables”, NBER Technical Paper, #137.
- (4) Cameron, A. Colin, Gelbach, Jonah B., Miller, Douglas L. (2006): “Robust Inference with Multi-Way Clustering,” NBER Technical WP Series 327.
- (5) Feldman and Dowd (1991): “New Evidence on the Welfare Loss of Excess Health Insurance,” *AER* 81, 297-301.
- (6) Train, Kenneth E. (2002): *Discrete Choice Methods with Simulation*, Cambridge University Press, chapters 2, 3, 4.