



**PHBS**  
北京大学汇丰商学院



## Course Code Health Care Financing & Management Module 3, 2018/2019

### Course Information

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Office Hour: Wed. 3pm-5pm

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Phone:

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**Classes:**

Lectures: Mon. & Thur., 1:30pm – 3:20pm

Venue: PHBS Building, Room

## 1. Course Description

### 1.1 Context

Course overview:

Arrow highlighted the prevalence of uncertainty in health care markets: physicians are uncertain about how to treat patients, especially when medical technology is changing so rapidly; patients are uncertain about the effectiveness of medical treatment with limited knowledge of medicine; and consumers and health plans are uncertain about the appropriateness and quality of providers' services.

Economic models explain some but by no means all consumer and producer behaviours in the medical services sector, and as for making health care policies, the economic concept of efficiency is a helpful criterion but not the only criterion for judging the desirability of alternative arrangement (e.g., distributions and redistributions). Given the uneasy balance of efficiency and equality/equity, there is by no means a best health care system suitable for every society, which is especially true for a developing economy like China. In this class we will discuss why standard economic models of behaviour and efficiency sometimes work and matter and sometimes do not in this industry. We are going to discuss the available information related but not limited to the following questions: do people behave in ways that are or could be made to be efficient (and equitable)? How much inefficiency is there in this industry and what are the causes? How is health care usually financed in a society? And how might a country better manage its resources dedicated to improving the health of its population?

The main context of this course is: (1) to consider how medical care is provided and financed; (2) to explore the implication of market failures in health care market such as moral hazard, adverse selection; and (3) to help you get informed with the making of health policies and how different health system evolved and developed, and also to discuss various reform ideas.

Comments and questions in class are strongly encouraged. Things that seem confusing or controversial are usually that way for many students; everyone will benefit if you ask questions. And because the class will deal with policy, there is a lot of room for honest feedback and constructive disagreement. No one knows the complete answer, or even the right answer, to many of the questions that will be raised in the classes. We do not set out to find the perfect answers, in different context, a solution may have quite ambiguous delivery and effect.

Prerequisites:

Basic knowledge of microeconomics is required

## 1.2 Textbooks and Reading Materials

### Recommended Books:

- Sherman Folland, Allen Goodman, and Miron Stano, *The Economics of Health and Health Care*, Routledge; 8 edition (May 22, 2017)
- Thomas E. Getzen, *Health Economics and Financing*, Wiley; 5 edition (November 27, 2012)
- A.J. Culyer and Joseph P Newhouse, *Handbook of Health Economics (Volume A and B)*, Elsevier Science, (2000)

### Required Reading:

Selected pivotal readings are listed for each topic. They will be provided by the professor, all of which are required.

## 2. Learning Outcomes

### 2.1 Intended Learning Outcomes

Learning Goals	Objectives	Assessment (YES with details or NO)
1. Our graduates will be effective communicators.	1.1. Our students will produce quality business and research-oriented documents.	Yes Testimony write-ups & Policy project reports
	1.2. Students are able to professionally present their ideas and also logically explain and defend their argument.	Yes Presentations
2. Our graduates will be skilled in team work and leadership.	2.1. Students will be able to lead and participate in group for projects, discussion, and presentation.	
	2.2. Students will be able to apply leadership theories and related skills.	
3. Our graduates will be trained in ethics.	3.1. In a case setting, students will use appropriate techniques to analyze business problems and identify the ethical aspects, provide a solution and defend it.	
	3.2. Our students will practice ethics in the duration of the program.	
4. Our graduates will have a global perspective.	4.1. Students will have an international exposure.	Yes Policy projects
5. Our graduates will be skilled in problem-solving and critical thinking.	5.1. Our students will have a good understanding of fundamental theories in their fields.	Yes Embedded exam
	5.2. Our students will be prepared to face problems in various business settings and	

	find solutions.	
	5.3. Our students will demonstrate competency in critical thinking.	Yes Policy projects

## 2.2 Course specific objectives

The students should be able to:

- understand the fundamental characteristics of health care;
- analyse the provision of medical services;
- be familiar with the paths of health care financing;
- make relevant and more informed judgement about health care policies and system reforms.

## 2.3 Assessment/Grading Details

### Grading schedule:

Class participation	10%
Testimony and group discussion of important issues	30%
Individual/Group Policy Project	30%
Final Comprehensive Exam (closed book)	30%

(Note: the assessment schedule may be adjusted according to the eventual number of registered student.)

To get a hands-on experience about the complexity of health care management, the best way is to take the role of an administrator or a policy maker, or even a critic. By collecting basic information and factual evidence related to a specific health care topic (e.g., private vs. universal coverage HI scheme, or incentive system for health care providers) and prepare a testimony defending one side of the opinion can help sink in the real toughness of making policy decision and justifiable comments and judgement. Hence this course leaves two classes for testimony and group discussion of picked important issues. Students are expected to be divided into two large groups (or more, depending on the actual number of course registration) representing different opinion groups, acting as a potential policy maker or proposal contender, not to “solve” the problems, but to appreciate the meaningfulness and justice of strategic compromise of potentially conflicting interests. Testimonies should be prepared in both written form and presentation form, there should be very refrained amount of charts and figures in a testimony, whereas you may use resealable analytical indications such as a table or a figure in the presentation.

A policy project is required for completion of this course. The student (or student group) picks a country, researches the health system and the health policy, drafts a write-up for this specific country, including the policy status quo, the most pronounced problems, the historic reforms, and the proposed suggestions to improve the system and policy. Informational data, charts, and figures are expected to be used for explanation of the arguments made in the report.

### Requirements for write-ups:

- Any submitted work should be typed, using 12-pitch font size and Times New Roman, double-spaced, and with no more than one-inch margins;
- Testimony should be between 8-10 pages, excluding any non-text contents and possible appendices;
- Policy project report should be between 18-20 pages, excluding charts and figures, references, and appendices;
- Submitted work can be hard copies (dropped in my mailbox before deadline) or electronic versions sent to my email address, attention to English grammar and clarity of writing are expected and will impact your score;

- You may use materials from the class, journal articles, economic magazine and newspaper articles, and the internet resources to support your argument in your work, but there should be NO copying and pasting from the original materials;
- Assigned work is expected to be turned in before pre-set deadline. Work submitted after deadline will be graded as "0" unless permission from the professor is granted in advance under special circumstances.

Important deadlines:

- April 14: submission of two testimony write-ups
- April 19: submission of policy project write-up
- April 24: final exam

## **2.4 Academic Honesty and Plagiarism**

It is important for a student's effort and credit to be recognized through class assessment. Credits earned for a student work due to efforts done by others are clearly unfair. Deliberate dishonesty is considered academic misconducts, which include plagiarism; cheating on assignments or examinations; engaging in unauthorized collaboration on academic work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honours, awards, or professional endorsement; or altering, forging, or misusing a University academic record; or fabricating or falsifying of data, research procedures, or data analysis.

All assessments are subject to academic misconduct check. Misconduct check may include reproducing the assessment, providing a copy to another member of faculty, and/or communicate a copy of this assignment to the PHBS Discipline Committee. A suspected plagiarized document/assignment submitted to a plagiarism checking service may be kept in its database for future reference purpose.

Where violation is suspected, penalties will be implemented. The penalties for academic misconduct may include: deduction of honour points, a mark of zero on the assessment, a fail grade for the whole course, and reference of the matter to the Peking University Registrar.

For more information of plagiarism, please refer to *PHBS Student Handbook*.

## **3. Topics, Teaching and Assessment Schedule**

### **3.1 Topics**

Due to the scheduled amount of teaching hours, in this class, we will be covering the most basic and most important topics, which include several subtopics. There may be certain topics not covered during this time period that you are interested to know, I suggest the students to find the answers in the reading materials and the books, and to utilize other public sources for updated debates regarding health care issues.

#### **Topic 1 Introduction and Overview: What's Special about Health/Medical Care?**

##### **Readings**

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

Lees, Dennis S. and Robert Rice, 1965, "Uncertainty and the Welfare Economics of Medical Care: Comment," *The American Economic Review* 55(1/2):140-154.

Cutler, David M. et al., 2006, "The Determinants of Mortality," NBER Working Paper 11963.

## **Topic 2      Financing Health Care: Risk Pooling, Health Insurance, and Moral Hazard**

### **Readings**

Pauly, Mark, 1968, "The Economics of Moral Hazard: Comment," *The American Economic Review* 58(3):531-537.

Long, John D., 1972, "Risk Uncertainty, and Moral Hazard: Comment," *The Journal of Risk and Insurance* 39(1):130-135.

Manning, Willard et al. 1987, "Health Insurance and the Demand for Medical Care," *The American Economic Review* 77(3):251-277.

Zeckhauser, Richard, 1970, "Medical Insurance: A Case Study of Trade-Off between Risk Spreading and Appropriate Incentives," *Journal of Economic Theory* 2(1):10-26.

Rosett, Richard N. and Lien-fu Huang, 1973, "The Effect of Health Insurance on the Demand for Medical Care," *The Journal of Political Economy* 81(2):281-305.

Gaynor, Martin et al., 2000, "Are Invisible Hands Good Hands? Moral Hazard, Competition, and the Second-Best in Health Care Markets," *The Journal of Political Economy* 108(5):992-1005.

Ehrlich, Isaac and Gary Becker, 1972, "Market Insurance, Self-Insurance, and Self-Protection," *The Journal of Political Economy* 80(4):623-648.

## **Topic 3      Financing Health Care: Individual and Group Health Insurance, Asymmetric Information and Risk Selection**

### **Readings**

Akerlof, George, 1970, "The Market for Lemons," *The Quarterly Journal of Economics* 84(3):488-500.

Cutler, David and Richard Zeckhauser, 2000, "The Anatomy of Health Insurance," in *Handbook of Health Economics*, Vol. 1A, Chapter 11:606-629 only.

Rothschild, Michael and Joseph Stiglitz, 1976, "Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information," *The Quarterly Journal of Economics* 90(4):629-650.

Frank, Richard G., Jacob Glazer, and Thomas G. McGuire, 2000, "Measuring Adverse Selection in Managed Health Care," *Journal of Health Economics* 19:829-854.

## **Topic 4      Financing Health Care: Health Care and the Public Sector**

### **Readings**

Cutler, David, 2002, "Health Care and the Public Sector," in *Handbook of Public Economics*, Vol. 4, Chapter 31(except for sections 5&8).

Cutler, David and Jonathan Gruber, 1996, "Does Public Insurance Crowd Out Private Insurance?" *The Quarterly Journal of Economics* 111(2):391-430.

Shore-Sheppard, Lara et al., 2000, "Medicaid and Crowding Out of Private Insurance: A Re-examination Using Firm Level Data," *Journal of Health Economics* 19:61-91.

Pauly, Mark, 1974, "Overinsurance and Public Provision of Insurance: The Roles of Moral Hazard and Adverse Selection," *The Quarterly Journal of Economics* 88(1): 44-62.

Garthwaite, Craig L., 2011, "The Doctor Might See You Now: the Supply Side Effects of Public Health Insurance Expansions," NBER Working Paper 17070

Wagstaff, Adam, 2010, "Social Health Insurance Re-examined," *Health Economics* 19: 503-517.

**Topic 5      The Supply of Medical Care: Asymmetric Information and Agency, Physicians**

**Readings**

Pauly, Mark, 1995, "Paying Physicians as Agents: Fee for Service, Capitation or Hybrids?" in *Health Care Policy and Regulation*. Kluwer, ed. T. Abbott, ch9: 163-174.

Ellis, Randall and Thomas McGuire, 1990, "Optimal Payment Systems for Health Services," *Journal of Health Economics* 9: 375-396.

McGuire, Thomas and Mark Pauly, 1991, "Physician Response to Fee Changes With Multiple Payers," *Journal of Health Economics* 10(4): 385-410.

Dranove, David, 1988, "Demand Inducement and the Physician-Patient Relationship," *Economic Inquiry* 26(2): 281-298.

Jaegher, Kris De, 2009, "Physician Incentives: Cure versus Prevention," *Journal of Health Economics* 29: 124-136.

McClellan, Mark, 2011, "Reforming Payment to Healthcare Providers: the Key to Slowing Healthcare Cost Growth While Improving Quality?" *Journal of Economic Perspectives* 25(2): 69-92.

**Topic 6      The Supply of Medical Care: Hospitals**

**Readings**

Pauly, Mark and Michael Redisch, 1973, "The Not-For-Profit Hospital as a Physicians' Co-operative," *The American Economic Review* 63(1): 87-100.

Newhouse, Joseph, 1970, "Toward a Theory of Nonprofit Institutions: An Economic Model of a Hospital," *The American Economic Review* 60(1): 64-74.

Dranove, David, 1988, "Pricing by Non-Profit Institutions: The Case of Hospital Cost-Shifting," *Journal of Health Economics* 7(1): 47-57.

Frakt, Austin, 2011, "How Much do Hospitals Cost Shift? A Review of the Evidence," *The Milbank Quarterly* 89(1): 90-130.

**Topic 7      The Supply of Medical Care: the Market for Pharmaceuticals**

**Readings**

Scherer, F. M., 2000, "The Pharmaceutical Industry," in *Handbook of Health Economics*, Vol. 1B, Chapter 25.

Grabowski, Henry and John Vernon, 2000, "The Determinants of Pharmaceutical Research and Development Expenditures," *Journal of Evolutionary Economics* 10: 201-215.

Kyle, Margaret, 2007, "Pharmaceutical Price Controls and Entry Strategies," *The Review of Economics and Statistics* 89(1):88-99.

Lichtenberg, Frank, 1998, "Pharmaceutical Innovation, Mortality Reduction, and Economic Growth," NBER working paper 6569.

Lichtenberg, Frank R. and Tomas J. Philipson, 2002, "The Dual Effects of Intellectual Property Regulations: Within- and Between-Patent Competition in the U.S. Pharmaceuticals Industry," *Journal of Law and Economics* 45(2):643-672.

Chilukuri, Sastry and Ann Westra, 2017, "Digital R&D the Next Frontier of Biopharmaceuticals," McKinsey & Company.

Ajani, Rafiq, Arnaub Chatterjee, Aniketh Talwai, and Jack Zhang, 2018, "How a Pharma Company Applied Machine Learning to Patient Data," Harvard Business Review Online Content, Oct. 25.

## Topic 8 Health Systems and Reforms

### Readings

WHO, 2018, "Monitoring progress on universal health coverage and the health-related Sustainable Development Goals in the South-East Asia Region," WHO Regional Office for South East Asia.

Burton A. Weisbrod, 1991, "The Health Care Quadrilemma: An Essay on Technological Change, Insurance, Quality of Care, and Cost Containment," *Journal of Economic Literature* 29(2):523-552.

Cutler, David, 2002, "Equality, Efficiency, and Market Fundamentals: The Dynamics of International Medical-Care Reform," *Journal of Economic Literature* 40(3):881-906.

Diamond, Peter, 1992, "Organizing the Health Insurance Market," *Econometrica* 60(6):1233-1254.

IBM Institute for Business Value, 2006, "Healthcare 2015: Win-win or Lose-lose?"

Uchimura, Hiroko, 2012, "Health System reforms in China: What Is Needed for A Next Step?" Interim Report for Internally Valid Econometric Studies

Mankiw, Gregory, 2017, "Why Health Care Policy is so Hard?" *The New York Times*, July 28.

Cochrane, John, 2017, "Health Care Policy Isn't so Hard," <https://johnhcochrane.blogspot.com/2017/09/health-care-policy-isnt-so-hard.html>, September 25.

## 3.2 Approximate schedule

(may subject to minor adjustment according to actual class progress)

	Date	Topic	Notes
Week 1	02.18	Overview part 1	
	02.21	Overview part 2	
Week 2	02.25	HI and moral hazard	
	02.28	HI and moral hazard	
Week 3	03.04	Risk pooling and adverse selection	

	03.07	Risk pooling and adverse selection	
Week 4	03.11	Risk pooling and adverse selection	
	03.14	Testimony and discussion on market-oriented vs. universal coverage HI scheme	Presentation materials should be turned in before class; write-up testimony due on April 14
Week 5	03.18	Public finance of healthcare	
	03.21	Public finance of healthcare	
Week 6	03.25	Physicians	
	03.28	Physicians	
Week 7	04.01	Hospitals	
	04.04	Hospitals	
Week 8	04.08	Testimony and discussion incentive system for health care providers	Presentation materials should be turned in before class; write-up testimony due on April 14
	04.11	Pharmaceutical market	
Week 9	04.15	Pharmaceutical market	
	04.18	Health system and reform	Policy project report due on April 19
Week 10	04.24	Final exam	Time: 1pm-3pm; Venue: TBD

#### 4. Miscellaneous

- Avoid tardiness
- About roll call
- Email notification of absence
- No use of cell phone in the classroom