

**Harvard School of Public Health
HPM 206 Economic Analysis
Fall 2017
Tuesday, Thursday 11:30-1:00
FXB G-13**

Instructor

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Teaching Assistants

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Texts and Reading Materials:

Books may be purchased at the Harvard Coop in Cambridge. The reading packet is available for purchase at the Curriculum Development Office, Kresge first floor.

Course Objectives

At the completion of the course, you should be able to:

- a) articulate the key assumptions of the economic model
- b) explain the applications and limitations of the economic approach
- c) analyze and evaluate health and medical care policies using economic theory

Outcome Measure

There are 4 take-home quizzes, a mid-term exam, and a final exam.

Grading Criteria

Grades are based 10% on each of the 4 quizzes, 20% on the hour exam and 40% on the final exam. The two in-class exams are based on the problem sets and sample exams.

Course Evaluations

Completion of the evaluation is a requirement. Your grade will not be available until you submit the evaluation. Please complete the evaluation. Thank you kindly.

Required Textbooks:

Baumol, W.J., Blinder, A.S., *Microeconomics: Principles and Policy*, 13th ed. New York, NY: Harcourt College Publishing (2016) or another basic text

Hemenway, D., *Prices and Choices (P&C)*, 3rd ed. Lanham, MD: University Press of America (1993).

Strongly Recommended:

Study Guide to accompany Baumol & Blinder

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|-------------------------|----------------|---------------------|
| Sessions 1 and 2 | 8/29,31 | Introduction |
|-------------------------|----------------|---------------------|

Topics: Basic Assumptions of Economics
Production Possibility Curve
Opportunity Costs
Law of Diminishing Returns

Required Reading:

Radford, R.A., "The Economic Organization of a P.O.W. Camp," *Economica*, v12, (November 1945), pp. 189-201.

<http://links.jstor.org.ezp1.harvard.edu/sici?sici=0013-0427%28194511%292%3A12%3A48%3C189%3ATEOOAP%3E2.0.CO%3B2-D>

Hemenway, D., "The Bible," "Basic Assumptions" and "Aphorism," *P&C*, pp. 1-11 and Chapter 26.

Baumol & Blinder, Chapter 3.

Handouts: Problem Sets 1, 2, and 3

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| Sessions 3-5 | 9/5,7,12 | Supply and Demand |
|---------------------|-----------------|--------------------------|

Topics: Experiment
Elasticity
Applications

Required Reading:

Baumol & Blinder, Chapters 4, 6

Hemenway, D., “Crime,” *P&C*, Chapter 12.

Handouts: Problem Sets 4, 5, 6

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| Session 6 | 9/14 | Demand Side: Consumer Behavior |
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Topics: Marginal Utility
Consumers’ Surplus

Required Reading:

Baumol & Blinder, Chapter 5.

Hemenway, D., “Temptation” and “Fashion”, *P&C*, Chapters 2 and 4.

Handout: Problem Set 7.

Due: Quiz 1

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| Session 7 | 9/19 | Supply Side: Short-Run Costs |
|------------------|-------------|-------------------------------------|

Topics: Cost Concepts
Graphical Representation of Profit Maximization
Marginal Cost as the Supply Curve

Required Reading:

Baumol & Blinder, Chapters 7, 8 and 10 (pp. 195-203).

Handouts: “Economic Cost:”
Problem Sets 8. 9

Session 8**9/21****Normative Implications**

Topics: Implications of the Model
Introduction to Externalities

Required Reading:

Baumol & Blinder, Chapter 10 (pp. 203-212).

“Notes on Competitive Supply”
Course Packet

Session 9**9/26****Imperfect Competition: Monopoly**

Topics: Allocative Inefficiency
Natural Monopoly

Required Reading:

Baumol & Blinder, Chapter 11 (pp. 213-222).

Hemenway, D., “The Ice Trust,” *P&C*, Chapter 19.

Handouts: Problem Set 10

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| Session 10 | 9/28 | Price Discrimination |
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Topics: Prevalence
 Effects
 Haggling
 Two-Part Tariff

Required Reading:

Baumol & Blinder, Chapter 11 (pp. 222-227).

Hemenway, D., “Haggling” and “Cover Charge”, P&C, Chapters 7 and 8.

Handouts: Problem Set 11

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| Sessions 11 and 12 | 10/3,5 | Oligopoly and Game Theory |
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Topics: Game Theory
 Prisoner’s Dilemma

Required Reading:

Baumol & Blinder, Chapter 12 (pp. 234-239; 243-247).

Hemenway, D., “Appendix on Payoff Matrices,” P&C, pp. 263-268.

Recommended Reading:

Schelling, T.C., *The Strategy of Conflict*. New York, NY: Oxford University Press, (1963), Chapters 3 and 5, pp. 53-80, 119-150.

Handouts: Problem Set 12
 Game Theory Questionnaire
 Sample Exam Questions

Due (10/5): Quiz 2

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| Sessions 13 and 14 | 10/10, 12 | Review & Exam |
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| Sessions 15 | 10/17 | Labor Market and Present Value |
|--------------------|--------------|---------------------------------------|

Topics: Compensating Wage Differentials
 Target Income
 Investment Decisions (Present Value)

Required Reading:

Baumol & Blinder, Chapters 18-20

Hemenway, D., “Tipping”, *P&C*, Chapter 9.

Hammond, III, J.S., *Introduction to Accumulated Value and Present Value*. Boston, MA: Harvard Business School, ICCH No. 9-173-003, Rev. 6/75.
 Course Packet

Handouts: Problem Set 13

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| Session 16 | 10/19 | Policy Goals |
|-------------------|--------------|---------------------|

Topics: Pareto Criterion
 Kaldor-Hicks Criterion
 Optimal Location
 Theory of the Second Best

Required Reading:

Baumol & Blinder, Chapters 14, 15 and 17.

Schelling, T., “Economic Reasoning and the Ethics of Policy”, *Choice and Consequence*. Cambridge, MA: Harvard Press, (1984) Chapter 1. Course Packet.

Hemenway, D., “Optimal Location,” *P&C*, Chapter 23.

Hemenway, D., “The Second Best in Statistics,” *Journal of Clinical Epidemiology*, v44 (1991) pp. 957-959.
[http://ezp1.harvard.edu/login?url=http://dx.doi.org/10.1016/0895-4356\(91\)90060-M?nosfx=y](http://ezp1.harvard.edu/login?url=http://dx.doi.org/10.1016/0895-4356(91)90060-M?nosfx=y)

Handouts: Optimal Location of Doctors

Topics: Risk and Utility
Moral Hazard
Adverse Selection
Propitious Selection

Required Reading:

Frank, R.H., *Microeconomics and Behavior* 9th ed. Economics of Information. NY: McGraw-Hill 2015. Chapter 6.

Hemenway, "Insurance," "Nervous Nellies," and "Health Care," *P&C*, Chapters 11, 22 and 25.

Newhouse, J., *Free for All? Lessons for the Rand Health Insurance Experiment*. Cambridge, MA: Harvard University Press, (1993), pp. 8-11, 41, 338-341.
Course Packet

Clyde, A.T., Hemenway, D., and Nagurney, J.T., "Seat Belt Use, Insurance Status and Hospital Bad Debt," *Journal of Trauma*, (1996), v14, pp. 100-104.
Course Packet

Handouts: Problem Sets 14, 15

Sessions 19 and 20

10/31. 11/2

Externalities and Public Goods

Topics: The Commons
 Pollution: Problems and Policy
 Public Goods
 Rent-Seeking Behavior
 Tipping Models
 Social Forces

Required Reading:

Baumol & Blinder, Chapter 16 (pp. 325-338).

Hemenway, D., “Social Forces”, “Externalities” and “Is Monopoly Bad”, *P&C*, Chapters 5, 13 and 18.

Schelling, T.C., “On the Ecology of Micromotives”, *Public Interest*, (Fall 1971), pp. 59-98. Course Packet

Olson, M., *The Logic of Collective Action*. Cambridge, MA: Harvard University Press, (1965), pp. 1-3, 9-16, 132-141. Course Packet

Solnick, S.J., Hemenway, D., “Is More Always Better? A Survey on Positional Concerns,” *Journal of Economic Behavior and Organization*, v37, (1998), pp. 373-383.

[http://ezpl.harvard.edu/login?url=http://dx.doi.org/10.1016/S0167-2681\(98\)00089-4?nosfx=y](http://ezpl.harvard.edu/login?url=http://dx.doi.org/10.1016/S0167-2681(98)00089-4?nosfx=y)

Hemenway D. “What I Would Like Economic Majors to Know” *Real-World Economics Review*, Issue #63, 2013.

<http://www.paecon.net/PAERReview/issue63/Hemenway63.pdf>.

Handouts: Problem Sets 16, 17

Due (11/2): Quiz 3

Session 21**11/9****Health Policy Approach**

Topic: Public Health and the Economic Approach
Injury and Violence Prevention

Required Reading:

Hemenway D. “Public Policy” In: Li G, Baker S., eds. *Injury Research: Theories, Methods and Approaches*. New York: Springer 2012. Course Packet

Hemenway D. “Why Don’t We Spend Enough on Public Health?” *New England Journal of Medicine*. 2010; 362:1657-58.
<http://www.nejm.org/doi/full/10.1056/NEJMp1001784>.

Recommended Reading:

Hemenway, D., *While We Were Sleeping: Success Stories in Injury and Violence Prevention*. Berkeley, CA: U California Press, (2009), Chapters 1, 2, 8, 10.

Session 22**11/14****Incentives (Traditional Economics)**

Topics: Financial Incentives; Risk Compensation

Required Reading:

Hemenway, D., “Risk Compensation,” *P&C*, Chapter 21.

Hemenway, D., “Financial Incentives for Childhood Immunization,” *Journal of Policy Analysis and Management*, v14, (Winter 1995), pp. 133-139.
<http://ezpl.harvard.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=9501280050&site=ehost-live&scope=site>

Hemenway, D., “Authors and Authorship”, *American Journal of Public Health*, v88, (1998), pp826-827. Course Packet

Sandel MJ. *What Money Can’t Buy: The Moral Limits of Markets*. New York: Farrar, Straus & Giroux, 2012. pp. 47-65. Course Packet

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| Session 23 | 11/16 | Incentives (Behavioral Economics) |
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Topics: Irrational Behavior
Nudge: Libertarian Paternalism

Required Reading:

Kahneman, D., "A Psychological Perspective on Economics," *American Economic Review*, v93, (May 2003), pp. 162-168.

<http://ezpl.harvard.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=10015888&site=ehost-live&scope=site>

Ariely, D. *Predictably Irrational: The Hidden Forces that Shape Our Decisions*. New York, NY: HarperCollins Publishing, 2008, pp. 239-244.

Thaler, R.H., Sunstein, C. R., "Libertarian Paternalism," *American Economic Review*, v93, (May 2003), pp. 175-179.

<http://ezpl.harvard.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=10015892&site=ehost-live&scope=site>

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| Session 24 | 11/21 | Behavioral Economics (2) & Regulation |
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Topics: Applying Behavioral Economics
Enforcement Game

Required Reading:

Hough DE., *Irrationality in Health Care*, Stanford CA: Stanford University Press, 2013, chapter 4, pp100-135.

Hemenway, D., and Solnick, S.J., "'You Better Shop Around': The Market for Motor Vehicle Inspection," *Law and Policy*, v12 (Oct. 1990), pp. 317-329.

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| Session 25 | 11/28 | Quality & Price Indices |
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Topics: Standards
Factors Affecting Quality
Prices Indices

Required Reading:

Hemenway, D., "Voluntary Standards" "Quality Assessment" and "Determinants of Quality" *P&C*, Chapters 14, 15, 16.

Handouts: Problem Set 18

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| Sessions 26 & 27 | 11/30, 12/5 | Guest Lectures (to be announced) |
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Due (12/5): Quiz 4

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| Session 28 | 12/7 | Cost Benefit Analysis |
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Topic: Value of a Life

Required Reading:

Folland, S., Goodman, A.C., Stano, M. "Economic Efficiency and Cost Benefit Analysis," *The Economics of Health and Health Care*, 7th ed., (2013) Chapter 4, pp. 63-81. Course Packet

Handouts: Problem Set 19
Sample Exam

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| Session 29 & 30 | 12/12,14 | Review & Exam |
|----------------------------|-----------------|--------------------------|

| August September | Date | Session |
|---------------------|------|---------|
| T | 29 | 1 |
| Th | 31 | 2 |
| T | 5 | 3 |
| Th | 7 | 4 |
| T | 12 | 5 |
| Th | 14 | 6 |
| T | 19 | 7 |
| Th | 21 | 8 |
| T | 26 | 9 |
| Th | 28 | 10 |

| November | Date | Session |
|----------|------|---------------|
| Th | 2 | 20 |
| T | 7 | APHA No class |
| Th | 9 | 21 |
| T | 14 | 22 |
| Th | 16 | 23 |
| T | 21 | 24 |
| Th | 23 | Holiday |
| T | 28 | 25 |
| Th | 30 | 26 |
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| October | Date | Session |
|---------|------|---------|
| T | 3 | 11 |
| Th | 5 | 12 |
| T | 10 | Review |
| Th | 12 | Exam |
| T | 17 | 15 |
| Th | 19 | 16 |
| T | 24 | 17 |
| Th | 26 | 18 |
| T | 31 | 19 |

| December | Date | Session |
|----------|------|---------|
| T | 2 | 27 |
| Th | 5 | 28 |
| T | 7 | Review |
| Th | 9 | Exam |
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