

Health Economics & Strategy (HLTHMGMT 326)

Daytime MBA Program

Faculty

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Course Overview

We will apply the tools of economics and strategy to address challenges faced by managers and policy makers in the health sector. We will begin each class by discussing a case. We will use “cold calling,” to draw on the expertise and preparation of all those in the room. We will integrate current events throughout class discussion. We will conclude each class with additional insights from economics and strategy.

We will examine strategies for payers, manufacturers, and providers. First, we will analyze the demand for and supply of health insurance, including strategies to mitigate moral hazard and adverse selection and to increase rates of quality-based effective care. Second, we will demonstrate cost effectiveness of a new medical intervention and suggest profit-maximizing and ethical prices. Third, we will examine the demand for medical products, including biologics, devices, and pharmaceuticals. Fourth, we will look at how hospitals compete and the impact of new sources of competition. Fifth, we will compare health systems from around the world and draw lessons for health system change.

Some people in the class will be unfamiliar with the health sector in the United States. Even those with experience in the U.S. health sector often have a specific focus and are less familiar with other areas. For example, a person with expertise from the pharmaceutical sector might have much to learn about the hospital sector. If you find the material very unfamiliar please i) ask in class for us to clarify unfamiliar terms, ii) read your textbook – it is a rich source of information, and iii) see the supplementary materials on the class web page. It can be intimidating being in a room with these experts, but you can learn from their expertise.

We will have rich discussions about health care strategy and policy. My professional experiences can provide valuable insights, but also are potential sources of bias. Please be aware that my research has been supported by businesses and foundations that are active in health care.

Course Objectives

- Be familiar with insurance economics including adverse selection, moral hazard, and risk pooling.
- Know the causes of rising health care costs (hint: it's not the aging of the population yet) and what strategies are used by consumer-directed plans and managed care plans to control costs.
- Be more familiar with health care payment and provision around the world.
- Be familiar with reimbursement, including the recognition that Food and Drug Administration approval is not sufficient for payers to reimburse physicians that use a medical product.
- Know how to demonstrate the value of a medical product using cost effectiveness analysis.
- Understand the differences between non-profits and for-profits, particularly in the hospital and insurance industries.
- Examine the demand for medical products and how demand is affected by copayments and marketing.
- Understand that generics are not inherently cheap, but in markets with high revenue potential, many entrants are attracted, and competition drives down prices. When markets are small or entry costs are high, then generics often have high prices.
- Be aware of rising competition from generic manufacturers, retail clinics, medical tourism, specialty hospitals, and others.
- Develop competitive strategies for specialty hospitals and their rivals.
- Understand competing proposals for increasing the prevalence of health insurance.
- Develop strategies for competing in a consumer-directed health care market.
- Be better health care managers who understand current health care institutions and economics, and the implications of health care strategy for profits and social welfare.

Materials

We will read cases from the course pack, chapters from the textbook, "A Health Economics Primer" by Shirley Johnson-Lans, and supplemental articles from the course web page. The textbook is available for purchase or on reserve in the library.

Grading

- 30% Preparation (written case analysis)
- 30% Contribution (class discussion, including course board)
- 40% Term paper (may include evaluation by team members if applicable)

Preparation

For each class answer the questions on the “schedule” web page (not the questions in the case) in a short document. Submit the document using a link on the schedule page. Please include your name and section number in both the file name and the document. Also bring a hard copy to class as a reference. Past students reported working an average of 3.5 hours per assignment.

Full credit is 1 point and partial credit will be awarded for good effort. You can view homework grades within about a week of submission at <http://www.fuquaworld.duke.edu>. Click on “My Courses” then “HLTHMGMT 326” then “View Grades.” If you receive “0” for an assignment, please check with the TAs to confirm that they received it.

Please submit the assignment by 8 a.m. If, however, your section meets after 8 a.m. you may submit later in the day, but please submit before attending class. Assignments are generally not accepted after class, because i) the primary objective of the homework is to encourage preparation for class discussion, ii) answers are included in the slides posted on the web page after class, iii) it is generally better to work on future homework rather than past homework, and iv) each assignment represents only about 2% of your grade.

You may discuss the assignment with other *current* students in the class, but each student should submit a unique copy in her own words. Working with other current students should be a complement rather than a substitute for your own work.

Contribution

Please attend class and participate. It facilitates learning names if you bring your name placard and sign the seating chart each day. You may feel free to change seats each class, though.

We will use the on-line discussion group to clarify and extend discussions from class. The discussion group will be shared by students in both the daytime and executive classes. You can access the discussion board at <http://faculty.fuqua.duke.edu/~dbr1/health> (click “Discussion”).

Other obligations arise, including health, family, and career. If you must miss class, please submit your assignment on line and view the video posted after class. If you are particularly interested in the material, please post your thoughts to the class discussion board.

Term Paper

The paper topic should be a health sector strategy or policy that is important to you. Some data options are described at <http://faculty.fuqua.duke.edu/~dbr1/health> (click “Data”). You can view past papers at <http://faculty.fuqua.duke.edu/~dbr1/health> (click “Past Papers”).

We encourage collaboration with co-authors. Each paper may have up to 3 authors. For the term paper, teams may be formed across sections. You may have the opportunity to evaluate your co-authors’ contributions.

Prior to the paper due date, we will ask for a one-page abstract from each team (not from each individual) submitted using the web page. We ask for abstracts to encourage people to think about their papers before the last minute. We ordinarily do not provide specific feedback on the abstracts because they are so brief and specialized. If you demonstrate that you have started thinking about your paper you will receive full credit for the abstract.

You should focus on a single firm (for example, GlaxoSmithKline), agency (Centers for Medicare and Medicaid Services), or organization (World Health Organization). Provide thoughtful analysis, rather than simple descriptions and lists of facts. Your paper should provide a clear understanding of a problem, the major options available, and a way of accomplishing the solution.

You should use quantitative analysis when appropriate. This might involve existing data or it might involve forecasts using logical, explicit assumptions. For example, in my research I estimated the market for generic biologics before any reached the market, based on the generic pharmaceutical market and expected differences in entry costs. Another example would be the standard consulting interview in which you are asked to estimate the U.S. market for men’s razor blades, so you start with the population of the United States, then take the fraction that are men of age to shave, ...

Good papers commonly range from 1,000 to 10,000 words. It is possible to write a poor paper with more words and a good paper with fewer. The paper should include the following sections:

- Cover page. On page 1 include paper title, authors, acknowledgments, whether you submitted related material in other contexts, and whether the paper may be shared with others.
- Executive summary (i.e., abstract). On page 2 summarize the paper (including strategic recommendations) in 300 words or fewer.
- Issue statement. Identify the firm’s problem or opportunity.
- Background. Provide information that is relevant for the specific firm or agency.

- Capabilities. Identify the key qualitative and quantitative capabilities that your firm or agency must use or develop. Be specific about capabilities that are relevant for your issue, rather than a general assessment.
- Recommendations. Outline specific actions for leadership. The set of actions should address the quantitative and qualitative issues you identified in the capabilities section.
- Implementation. Review how long and in what order the firm or agency should implement your recommendations, what resources are needed to implement the recommendations, which people will be responsible for implementation, and what incentives and information will be needed to ensure that people implement the plan.
- Conclusion. Include summary, caveats, and broader implications (beyond the firm or agency in question).
- References. Include a list of papers cited in order to credit other authors and to help your reader identify further reading.

Readings

1. Managed Care

Regina E. Herzlinger, "THG Management Services," Harvard Business School Case.

Gerard F. Anderson, Uwe E. Reinhardt, Peter S. Hussey, and Varduhi Petrosyan, "It's The Prices, Stupid: Why The United States Is So Different from Other Countries," Health Affairs, May/June 2003; 22(3): 89-105.

Barbara Martinez, "Healthy Industry: In Medicaid, Private HMOs Take a Big, and Profitable, Role," Wall Street Journal, 2006.

Shirley Johnson-Lans, "The Evolution to Managed Care," Health Economics Primer, Chapter 4.

2. Consumer-Directed Care

Regina E. Herzlinger, "Medtronic's Health Insurance Options," Harvard Business School Case.

James C. Robinson and Paul B. Ginsburg. "Consumer-Driven Health Care: Promise and Performance." Health Affairs, 2009.

Shirley Johnson-Lans, "The Nature of Health Insurance Markets," Health Economics Primer, Chapter 3.

3. Reimbursement

Regina E. Herzlinger and JoEllen Slurzberg, "Note on Health Insurance Coverage, Coding, and Payment," Harvard Business School Case.

Shirley Johnson-Lans, "Social Insurance in the United States: Medicare and Medicaid," Health Economics Primer, Chapter 5.

4. Evidence-Based Medicine

Mark A. Hlatky, et al., "Evidence-Based Medicine and Policy: The Case of the Implantable Cardioverter Defibrillator," Health Affairs, Jan/Feb 2005, 24(1): 42-51.

Marshall S. Stanton, "Implantable Cardioverter Defibrillators: An Excellent Case Study," Health Affairs, Jan/Feb 2005, 24(1): 52-54.

“Medicare Says It Will Cover Test for Heart Device,” Wall Street Journal. (Eastern edition). New York, NY: Mar 22, 2006, B1.

T. Bennett et al., “Development of Implantable Devices for Continuous Ambulatory Monitoring of Central Hemodynamic Values in Heart Failure Patients,” Pacing and Clinical Electrophysiology, June 2005, 28: 573.

Shirley Johnson-Lans, “Cost-Benefit and Cost-Effectiveness Analysis,” Chapter 9.

5. Research and Development

Debapratim Purkayastha, “Pfizer’s Torcetrapib Failure: The Risks of New Drug Development,” ecch case.

Joseph A. DiMasi, Ronald W. Hansen, and Henry G. Grabowski, “The Price of Innovation: New Estimates of Drug Development Costs,” Journal of Health Economics, March 2003, 22(2): 151-185.

David B. Ridley, Henry G. Grabowski, and Jeffrey L. Moe, “Developing Drugs For Developing Countries,” Health Affairs, Mar/Apr 2006, 25(2): 313.

Shirley Johnson-Lans Chapter 11.

6. Pharmaceutical Prices

David B. Ridley, “Payments, Promotion, and the Purple Pill,” Duke Working Paper.

Toshiaki Iizuka, “The Economics of Pharmaceutical Pricing and Physician Prescribing in Japan,” 2008.

Shirley Johnson-Lans, “The Economics of Prescription Drugs,” Chapter 11.

7. Vaccines & Biotechnology

Margaret S. Coleman et al., “Factors Affecting U.S. Manufacturers' Decisions To Produce Vaccines,” Health Affairs, May/Jun 2005, 24(3): 635.

Henry G. Grabowski et al., “The Market for Follow-On Biologics: How Will It Evolve?” Health Affairs, Sep/Oct 2006, 25(5): 1291.

Shirley Johnson-Lans, “The Economics of Prescription Drugs,” Chapter 11.

8. Health Sector Data Analysis

<http://faculty.fuqua.duke.edu/~dbr1/health/data.html>

9. Hospital Strategy

Laura Morgan Roberts and Ayesha Kanji, "Jeanette Clough at Mount Auburn Hospital," Harvard Business School Case.

Uwe E. Reinhardt, "Pricing of U.S. Hospital Services: Chaos Behind a Veil of Secrecy," Health Affairs, January/February 2006; 25(1): 57-69.

Shirley Johnson-Lans, "Hospitals," Health Economics Primer, Chapter 8.

10. Hospital Competition

Regina E. Herzlinger, "MedCath Corporation (A)," Harvard Business School Case.

Shirley Johnson-Lans, "Hospitals," Health Economics Primer, Chapter 8.

11. Emerging Markets

Regina E. Herzlinger and Pushwaz Virk, "Fortis Healthcare (A)" Harvard Business School Case.

Barak D. Richman, Krishna Udayakumar, Will Mitchell, and Kevin A. Schulman, "Lessons from India in Organizational Innovation: A Tale of Two Heart Hospitals," Health Affairs, September/October 2008; 27(5): 1260-1270.

Shirley Johnson-Lans, "Comparative Health-Care Systems," Health Economics Primer, Chapter 12.

12. Health System Change

Shirley Johnson-Lans, "Comparative Health-Care Systems" Health Economics Primer, Chapter 12.

Shirley Johnson-Lans, "The Health-Care System of the United States: Where Do We Go Next?" Health Economics Primer, Chapter 14.

Daytime MBA Schedule

Please see the web page for updates.

| | Focus | Topic |
|----|---------------|-----------------------------|
| 1 | Payers | Managed Care |
| 2 | | Consumer-Directed Care |
| 3 | | Reimbursement |
| 4 | | Evidence-Based Medicine |
| 5 | Manufacturers | Research & Development |
| 6 | | Pharmaceutical Prices |
| 7 | | Vaccines & Biotechnology |
| 8 | Data | Health Sector Data Analysis |
| 9 | Hospitals | Hospital Strategy |
| 10 | | Hospital Competition |
| 11 | | Emerging Markets |
| 12 | Conclusion | Health System Change |

One-page abstract due Saturday midnight before last week of class
Term paper due Sunday midnight after last class