

Health Economics & Strategy (HLTHMGMT 326)

Daytime MBA Program

Professor

David Ridley
david.ridley<<at>>duke.edu
Telephone: 919.660.3784
Office: A105L

Teaching Assistants

Allison Kidder
Kelly Munroe
Mukesh Singhal
Bernadette McFadden Stout

Web Sites

Course: <https://sakai.duke.edu/portal/clogin>
David: <http://faculty.fuqua.duke.edu/~dbr1/>

Course Overview

We will apply the tools of economics and strategy to address challenges faced by managers and policy makers in the health sector. In the first hour of class, we will discuss the case. We will use cold calling to draw on the expertise and preparation of all those in the room. We will integrate current events in our 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 have little background in health care. Even those with health-care experience 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. Please feel free to ask us in class to clarify unfamiliar terms. Also, for those with less background in health, we posted supplementary materials on the class web page. Finally, the textbook is an incredibly rich source of information on the health sector.

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 (including pharmaceutical and biotech manufacturers) and foundations that are active in health care.

Course Objectives

- Realize that to control health care costs someone must say “no”: payer, provider, or patient.
- Understand insurance economics including adverse selection, moral hazard, and risk pooling.
- Be more familiar with health care payment and provision around the world.
- Understand reimbursement for manufactured products, including the recognition that regulatory approval is often necessary but not sufficient for government reimbursement.
- 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 advertising.
- Realize that generics are not inherently cheap, but in markets with high revenue potential, many entrants are attracted, and competition drives down prices. On the other hand, when markets are small or entry costs are high, generics typically have high prices.
- Calculate the cost of drug development, including failures and cost of capital.
- Know incentives for encouraging development of drugs for orphan and neglected diseases.
- Be aware of rising competition from generic manufacturers, retail clinics, medical tourism, and specialty hospitals, and how best to respond.
- Understand options for providing more health insurance to more people.
- Be better health care managers who understand current health care institutions and economics, and the implications of health care strategy for profits and social wellbeing.

Materials

We will read cases from the course pack, articles from the course web site, and chapters from the textbook, “A Health Economics Primer” by Shirley Johnson-Lans. 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 web page (not the questions in the case) in a short document. Submit the document using the web 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.

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 not accepted after class, because i) the primary objective of the homework is to encourage preparation for class, 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.

Full credit is 1 point and partial credit will be awarded for good effort. We will have homework graded in about a week. We intend to post grades on the web page. If you receive "0" for an assignment, please check with the TAs to confirm that they received it.

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 board to clarify and extend discussions from class. The discussion board will be shared by students in both the daytime and executive classes. You can access the discussion board through FuquaWorld or the course site.

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

Each person will be assigned to a team for the term paper. We will survey students at the end of the class regarding co-authors' contributions both in terms of input and output.

The paper topic should be about health care strategy. The focus should be on a single firm (for example, GlaxoSmithKline), agency (Centers for Medicare and Medicaid Services), or organization (World Health Organization). The paper should include thoughtful analysis, rather than simple descriptions and lists of facts. It should provide a clear understanding of a problem, the major options available, and a way of accomplishing the solution.

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.

Some data options are described on the course web site. Also posted are papers written by students from previous years.

Quantitative analysis should be used when appropriate. This might involve existing data or it might involve forecasts using logical, explicit assumptions. For example, in our research we estimated the market for biosimilars before any reached the market, based on the generic pharmaceutical market and expected differences in entry costs. Likewise, many consulting interviews feature questions such as the U.S. market for men's razor blades, so start with the population of the United States, then take the fraction that are men of age to shave, ...

The paper should include the following sections:

- Cover page. On page 1 include paper title, authors, acknowledgments, whether the material was submitted in other contexts (work or class), 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 the firm or agency must use or develop. Be specific about capabilities that are relevant for the issue, rather than a general assessment.
- Recommendations. Outline specific actions for leadership. The set of actions should address the quantitative and qualitative issues identified in the capabilities section.
- Implementation. Review how long and in what order the firm or agency should implement the 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 the reader identify further reading.

Schedule

	Focus	Topic	Term Paper	
1	Payers	Managed Care	Team assignments announced.	
2		Consumer-Driven Care		
3		Evidence-Based Medicine		
4		Reimbursement		
5	Manufacturers	Diagnostics	Term paper slide due. One member of each team should submit a single slide with 24-point font or greater listing paper title, authors, and tentative conclusions.	
6		Research & Development		
7		Pharmaceutical Prices		
8		Vaccines & Biotechnology		
9	Hospitals	Hospital Strategy		
10		Hospital Competition		
11		Emerging Markets		
12	Conclusion	Health System Change		Teaching assistant will present term paper slides.
Sunday after the last class at 11:55 p.m.				Term paper due. One member of each team should submit.

Readings

1. Managed Care

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

"Health Policy Brief: Accountable Care Organizations," Health Affairs, 2010.

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-Driven Care

Regina E. Herzlinger, "Consumer-Driven Health Care: 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. 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.

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.

4. Reimbursement

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

James D. Chambers and Peter J. Neumann, "Listening to Provenge — What a Costly Cancer Treatment Says about Future Medicare Policy", New England Journal of Medicine, 2011.

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

5. Diagnostics

Stefanos Zenios, Robert Chess, and Lyn Denend, "Genomic Health: Launching a Paradigm Shift...and an Innovative New Test," Stanford Case.

Mark R. Trusheim, Ernst R. Berndt, and Frank L. Douglas, "Stratified Medicine: Strategic and Economics Implications of Combining Drugs and Clinical Biomarkers," Nature Reviews Drug Discovery, 2007.

6. 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, "The Economics of Prescription Drugs," Chapter 11.

7. 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 10 (pages 212-215) and Chapter 11.

8. Vaccines and Biotechnology

Jean Stéphenne, "Vaccines as a Global Imperative—A Business Perspective", Health Affairs, 2011.

Dietger Niederwieser and Stephan Schmitz, "Biosimilar Agents in Oncology/Haematology: From Approval to Practice", European Journal of Haematology, 2011.

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

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

Ankur Seth, et al., "Narayana Cayman University Medical Center," Duke-Narayana Hrudayalaya Case Study.

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.