

ALUMNI NEWS

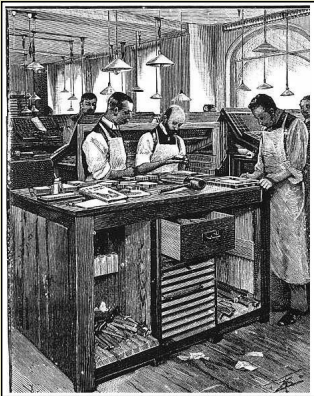
DEPARTMENT OF ECONOMICS

INDIANA UNIVERSITY OF PENNSYLVANIA ☞ INDIANA, PA 15705-1087

Issue 45, Spring 2009

PART 1: IS HEALTH CARE REFORM REALLY NEEDED?

BY DR. SARAH JACKSON



In 2007, 45 million Americans (about 15% of our population) and 8.3 million children did not have health insurance. In 2006, the U.S. devoted 15.3% of its GDP to health care services compared to Canada's 10% and the U.K.'s 8.4%, despite the fact that both Canada and the U.K. have universal health care coverage and better overall health outcomes.

In 2006, only 7.6% of adults reported having unmet medical needs. Of the 45 million Americans without health insurance, approximately 25% are eligible for insurance through current government programs (including about 75% of uninsured children) and another 19% could afford coverage without public assistance. In addition, health care and insurance are goods like any other. If people want them, they are available for purchase. If you believe that health care and insurance are special goods (like food or housing), then we can subsidize coverage for those with a proven need (like we do with food and housing). If you consider health care an *absolute right*, you may be more concerned about the lack of coverage but you also need to recognize that guaranteed coverage must also be either forced coverage (through taxation) or include *de facto* coverage which is likely to be expensive and heavily used because, if given the choice, there will inevitably be people who choose to not pay for coverage since they know they will end up being covered anyway (which in many ways is the situation we are in now since the government requires emergency rooms to provide care regardless of the ability to pay).

Over the past 35 years we have gone from spending more than 66% of our household budgets on food and beverages to spending less than 40%, but nobody would suggest that this is a problem. As we become wealthier, we change our consumption pattern because we can afford things we couldn't before so the fact that we spend a large percentage of our GDP on health care should not cause concern.

As for our lower health outcomes (in terms of infant mortality and life expectancy), we must also consider other factors that differ between the U.S. and other developed countries. We have higher rates of teenage pregnancies, obesity, and drug use, none of which are likely related to our health care system but do help explain our lower health outcomes.

Although I find the usual reasons less than compelling, I do think our system could be improved. Economic theory recognizes that the market process will fail (lead to an inefficient use of resources) under certain circumstances many of which are present in the market for health care: imperfect information, distorted incentives, hard to define or enforce property rights, and limited competition.

Imperfect Information

Consumers decide how much they are willing to pay for a good or service based on the benefits they expect to receive. In the

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Editor: Jack D. Julian, Jr.

FACULTY VIEW

HEALTH CARE REFORM

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market for health care services, the benefits can be unclear because the limits on our medical knowledge as a society, the limits on the medical knowledge of a given doctor, and the limits on the degree to which a consumer (*i.e.*, patient) can understand his condition, risks, and treatment options. Within our current system, even if a consumer wanted to make compare cost and quality across providers or procedures, they usually can't because cost and quality information is usually hard or even impossible to find.

Distorted Incentives

Most consumers do not bear the full cost of their health care expenses because most of us pay for our health care through health insurance. This creates a number of problems, one of which is that consumers do not care about the true cost of the services they purchase. This decreases the incentive of providers to publicize cost information, which in turn reduces the incentives providers have to compete by keeping costs low so they can offer lower prices. This lack of incentive to reduce costs also helps to explain why the medical industry has not fully incorporated information technology.

The distorted incentives also lead to an over-consumption of health services. Since consumers pay only a fraction of the true cost of most health services, their cost/benefit analysis is more likely to result in consumption. For example, if an individual has a sore throat and only has to pay a \$20 co-pay to see a doctor he may decide it is worth the cost just to make sure his sore throat is not serious. However, if he had to pay the full \$80 that the doctor charges for an appointment, he may decide to wait a couple days to see if he gets better. (Some argue that this precautionary usage is a good thing because problems caught early can be treated less expensively than problems caught later. This argument fails to consider that if the consumer always paid the full cost of his health care, he would weigh the probability that not seeing a doctor may lead to a more expensive treatment later on. If the consumer was pretty sure his problem was serious, he would likely make the decision to see the doctor while if he was pretty sure his problem was minor, he would probably make the decision to not see the doctor.) I do not think it is coincidence that medical expenditures have increased dramatically at the same time as the percentage of costs consumers pay out-of-pocket has declined (in 1960 consumers paid 46.9% of medical expenses out-of-pocket compared to 12.2% in 2006.)

Hard to Define or Enforce Property Rights

There are two main ways in which unenforceable property rights suggest that certain aspects of health care will be under-developed or under-used without government intervention.

First, medical research and developments are public goods. (Public goods are goods which are non-excludable and non-rival in consumption.) Research is a public good because once it is discovered, you can't stop people from knowing, for example, that eating a diet high in fiber reduces the risk of heart disease, and having one person know this doesn't prevent someone else from knowing it as well. The market tends to under-produce public goods because producers cannot earn a profit from creating public goods. Why would a company spend money researching what constitutes a healthy diet when there is no way to eventually earn money to pay for the cost of the research, much less make a profit? Absent government intervention with the creation of patents, new pharmaceuticals are also public goods. A company will not invest billions of dollars in the development of a new drug if anyone can copy the formula once the research and testing is done.

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Dr. Sarah E. Jackson

IF IT'S SPRING, IT'S SPRING TRAINING FOR DR. MARTEL

One of the joys of being retired is that you can do whatever you want when you want. For me, I always wanted to go to baseball spring training in Florida. My first experience with spring training was in 1996, during my sabbatical. I knew then that I wanted to do this on a regular basis. As a result of this very pleasant experience, my wife and I have been to spring training every year since 2002. We go to the spring training home of the Boston Red Sox in Fort Myers, Florida. We have season tickets and when we get to Fort Myers and attend the first game it's like a family reunion. Everyone who sits around us is also a season ticketholder.

One of the things I like about spring training is the intimacy of the parks. City of Palms Park, the home of the Red Sox, has a seating capacity of 7,290. No matter where you sit you're on top of the action. In addition, you get to see the prospects that the team is developing. You watch these young players and you can see what the team might look like in a few years down the road.

The game of March 23, 2009, between the Red Sox and the Detroit Tigers attracted a paid attendance of 8,278, the largest in the 17-year history of City of Palms Park. The previous mark of 8,749 was set on March 5, 2007, against the Los Angeles Dodgers. The Red Sox have sold out 88 straight "grapefruit league" (non-exhibition) games at City of Palms Park since March 16, 2003. It's nice to be able to say you were there for most of those sellouts.

Anyone having an interest in baseball should consider going to Florida or Arizona for spring training. I highly recommend it. GO SOX. *(Editors note: You can communicate with Dr. Martel at amartel@auxmail.iup.edu.)*



Dr. Arthur H. Martel

IUP CARES SYMPOSIUM

On March 25, 2009, **Dr. David Yerger** gave the opening one-hour talk for the IUP Cares Symposium "Economic Crisis: Bracing for Change." This was the third symposium offered by IUP which is free and open to the community. The first symposium held in 2007 was on diabetes; the second symposium held in 2008 was on child obesity. Each year's IUP Cares Symposium features a keynote speaker. This year it was Bill Flanagan, Executive Vice President of Corporate Relations for the Allegheny Conference on Community Development. The event was sponsored by Ameriprise Financial Services Inc., Eagle Strategies LLC, First Commonwealth Bank, and PNC Bank.

Dr. Yerger's talk, "Overview of the Economic Crisis, and Policy Responses to the Crisis," covered the most important factors at work creating the crisis, the severity of the crisis, the range of forecasts for how it would be resolved, and an evaluation of policy responses to date.

According to Dr. Yerger, the most important factors at work in creating the crisis were the interactions between the housing bubble, overleveraged financial institutions, and the credit default swap market. He noted that the severity of the crisis is such that it has become the most severe global economic slowdown since the Great Depression.

He also observed that for the U.S., the range of plausible forecasts go from a 10% peak in national unemployment rate (if we're lucky) to a 12% or more peak in national unemployment rate if the U.S. economy responds similarly to other nations that have experienced banking sector crisis of approximately the same magnitude.



Dr. David Yerger at the IUP Cares Symposium.

AT-A-GLANCE: DR. YAYA SISSOKO

Dr. Yaya Sissoko is an assistant professor in the Department of Economics. He received his Ph.D. in Economics from Southern Illinois University Carbondale. He holds an M.S. degree in Economics from the Southern Illinois University Carbondale and a B.S. degree in Econometrics from the University of Bamako, Mali. Dr. Sissoko has been a member of the Department of Economics since 2005. His areas of expertise are Economic Development, Econometrics, Environmental Economics, International Economics, International Finance, International Trade, Macroeconomics, Mathematical Economics, and Monetary Economics.

Dr. Sissoko is active with the IUP Office of International Education and the Office of Pan African Studies. He is also active with, and serves on the advisory board of, the IUP African American Cultural Center.

In March 2009 IUP held its annual International Unity Day in the HUB. The day's activities were a unique cultural experience for all who participated and attended. Over 25 countries were a part of the celebration with various ethnic foods and cultural entertainment: from Tae Kwan Do to Indian dancing to a cultural fashion show. Dr. Sissoko and his wife, Djeneba, prepared foods from their native country of Mali and dressed in traditional Malian apparel (see photo on the right): Dr. Sissoko dressing more casual than his wife's more formal "bazan boubou."

Dr. Sissoko is married with three children. In his spare time he coaches youth soccer and participates in an adult soccer league.



Dr. Sissoko with his wife Djeneba at International Unity Day.

STUDENT NOTES

Congratulations to **Antonio Ayllon** who has been awarded the Arthur Morrell Scholarship by the IUP Department of Mathematics. Antonio is an economics/mathematics major.

Stephanie Bearjar presented "Income Inequality and Population Growth Rates: An Analysis of Post-Industrial Europe" at the University of Pittsburgh's Europe East and West: Undergraduate Research Symposium on March 27, 2009. Stephanie was one of only seven non-Pitt students among the twenty-four students selected to participate.

Raymond G. Edwards, Jr. has been selected as the student trustee for the IUP Council of Trustees.



Stephanie Bearjar gives her presentation.

STUDENT NOTES (CONTINUED)

At the 2009 IUP Undergraduate Scholars Forum held on April 7, the following students presented their research papers:

- ◆ **Antonio Ayllon:** "A Cross-Section Analysis of Variation in Crime Rates in the Counties of Pennsylvania."
- ◆ **Stephanie Bearjar:** "Income Inequality and Population Growth Rates: An Analysis of Post-Industrial Europe."
- ◆ **Vernon Brundage:** "Downfall or Difference? Examining the Role of Parents/Guardians in the Success of African American Students' Pursuit of Higher Education."
- ◆ **Josh Gerwick:** "Pay for Performance: A Study of Factors that Influence CEO Compensation."
- ◆ **Aleta Haflett:** "In Poor Health: An Analysis of Infant and Maternal Mortality Rates in Pennsylvania Counties."
- ◆ **Mark Jackson:** "Economic Reforms and Poverty Alleviation. Case of India."
- ◆ **Boris Tanny:** "Facing Economic Development: Cote d'Ivoire."

Also, **Stephanie Bearjar** won the "Best in Session" award for her presentation in the Topics in Applied Economics session at the Undergraduate Scholars Forum.



Vernon Brundage presents his paper at the 2009 IUP Undergraduate Scholars Forum.

The Department of Economics wishes to congratulate the following award recipients. The awards were presented at the May 2009 Department of Economics Commencement Ceremony:

Bright Dismal Scientist Award – **Joshua Gerwick**

Dr. Brewer Award – **Wanzhi Li**

Wall Street Journal Award – **Se Hee Kim**



Graduating with Department Honors (Department of Economics Honors Track): **Anthony Blair, Vernon Brundage,** and **Joshua Gerwick.**



State Representative Dave Reed spoke to the Economics Club in April 2009. Left to right: Dr. James Jozefowicz, State Representative Dave Reed, and Dr. Willard Radell.

ECONOMICS CLUB NEWS

This spring semester, the Economics Club hosted the following alumni speakers:

Caleb Moore ('07) and

State Representative **Dave Reed ('00)**

If you plan to be in the area or live in the area and would be interested in speaking to the Economics Club, please contact Jim Jozefowicz at James.Jozefowicz@iup.edu.

FACULTY NOTES

Congratulations to retired professor **John Cross** and his wife Angela on the birth of their son, John Arthur, on December 1, 2008!

Dr. Sarah Jackson presented the paper, "Family Income, Family Aid, and College Choice" at the Midwest Economic Association Conference on March 22, 2009, in Cleveland, OH.

Dr. Sarah Jackson discussed the financial crisis on the GlobalAlert Radio Show WIUP (90.1 FM) on March 19, 2009.

This spring **Dr. Sarah Jackson** lead a series of 5 non-credit workshops titled "Analyzing Contemporary Issues" in conjunction with IUP Continuing Education program this spring semester.

Dr. James J. Jozefowicz attended the National Association of Economic Educators Professional Development Conference in Las Vegas, NV, on March 8-9. Jim co-chairs the NAAEE Professional Development Committee and helped to organize the conference.

"Choosing a 'Paper Pregnancy:' Determinants of International Child Adoptions Completed by U.S. Parents," co-authored by **Dr. Stephanie M. Jozefowicz**, **Tiffany M. Hicks ('05)**, and **Dr. James J. Jozefowicz** has been published in the *National Social Science Journal*.

"A Blueprint for Success in the U.S. Film Industry," co-authored by **Dr. Stephanie M. Jozefowicz**, **Dr. James J. Jozefowicz**, and **Jason M. Kelley ('03)**, was published in the February 2009 issue of *Applied Economics*.

"The Keystone Puzzle: The Impact of Employment Growth and Structural Factors on County Unemployment Rates in Pennsylvania," co-authored by **Neil R. Meredith ('06)** and **Dr. James J. Jozefowicz**, has been accepted for publication by *Pennsylvania Economic Review*

Dr. Nicholas Karatjas was recognized by IUP for 30 years of service. **Dr. Karatjas** has also been enjoying a semester's sabbatical this Spring term, which has been well earned and deserved. **Dr. Willard Radell** is ably filling in as interim department chairperson.

Dr. Yaya Sissoko presented "West Africa's Evolving Competitiveness Exposure in U.S. Import Markets", co-authored with David Yerger; and "Exchange Rate Pass-Through the U.S. Crude Oil Prices: A VAR Model Analysis", co-authored with Jui-Chi Huang (Penn State Berks, Reading PA) at the 2009 Midwest Economics Association Annual Meeting in Cleveland, OH, in March. He also served as a discussant on a paper on the dynamic and cross-sectional behavior of bonds in the framework of the Affine Term Structure Model (ATSM).

Dr. Yaya Sissoko presented the following papers at the 2009 Midwest Economics Association Annual Meeting in Cleveland, OH in March:

"West Africa's Evolving Competitiveness Exposure in U.S. Import Markets," co-authored with **Dr. David Yerger**. This paper utilizes a recently developed measure of one nation's competitive exposure to other nations on its export sales to analyze the competitive exposure facing West Africa nations on sales to the

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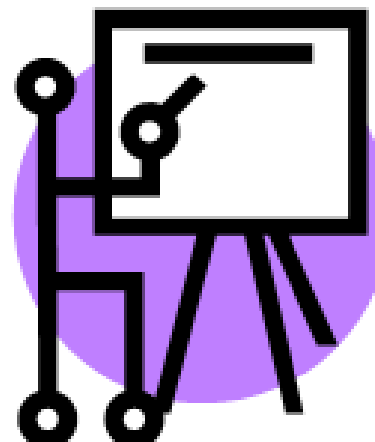
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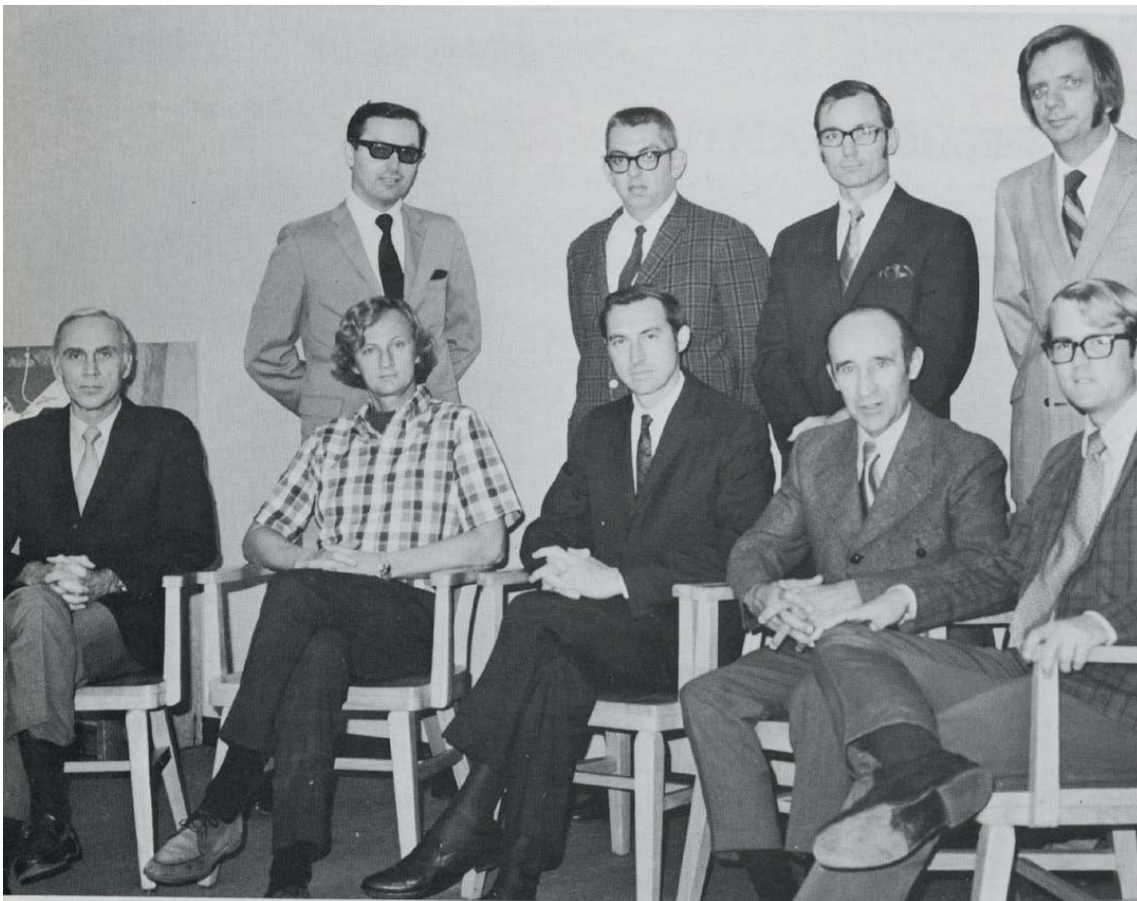
FACULTY NOTES (CONTINUED)

United States from 1996 to 2006. The methodology extends previous research by accounting both for similarity in export profiles across nations and for the absolute size of export sales by each nation. They identify changes over time in the importance of different world regions as competitors to West Africa nations, and highlight the product groups most responsible for West Africa's competitive exposure to other world regions on sales in the United States.

"Exchange Rate Pass-Through the U.S. Crude Oil Prices: A VAR Model Analysis" co-authored with Jui-Chi Huang (Penn State Berks, Reading, PA). The recent observations of a weaker dollar and higher gasoline prices have led us, among others in the field of economics, to ponder the relevance of the correlation between the dollar and price of gasoline. Numerous conducted studies provide and support evidence of almost a one-to-one positive relationship between the crude oil prices and the price of whole/retail gasoline. The agenda for this study is to connect the exchange rate changes to the imported crude oil prices, thus linking the exchange rate fluctuations with the whole/retail gasoline prices referred to as exchange rate pass-through methodology. This study analyzes this link using a vector autoregressive framework.

CAN YOU IDENTIFY: WHO? WHEN? WHERE? WHY?

We have recently acquired a vintage photograph taken of members of the Department. How many of you are able to identify the faculty seen in the photograph? More importantly, can anyone identify the approximate year of the photograph and perhaps even the event during which it was taken? We would really like to now! Contact Dr. Jack Julian at jjulian@iup.edu.



HEALTH CARE REFORM, CONTINUED

(Continued from page 2)

Second, some health care services have significant positive externalities associated with them, such as vaccines or treating contagious diseases. Consumers consider only their own benefit when deciding how much to pay for a vaccine or treatment, even though all of society would benefit as well since everyone around the individual would be less likely to get sick too.

Limited Competition

Limited competition weakens the incentive to keep costs and prices down because each provider doesn't have to work as hard to attract consumers. Competition is limited in the market for health care in a variety of ways. Most simply, in some locations and for some services there are only a few providers. There is not much the government can do to address these limits on competition.

If a government creates patents so that companies have an incentive to innovate, then it has also limited competition. Since patents involve significant trade-offs, we as a society must decide if the benefits outweigh the costs but it is important that we understand what these costs and benefits are before making the choice.

Competition is also limited by insurance companies and our system in which insurance is provided primarily through our employers. While employers can shop around for health insurance to some extent, once an insurer is chosen then employees are usually limited to accepting that insurer or not having health insurance. Insurance companies themselves can limit competition by restricting choices in doctors, hospitals, pharmacies, and treatments.

Yet Another Problem

Health insurance works by pooling risk. Individuals pay into the insurance with the understanding that their health expenses will be reduced. This only works if enough money is paid into the system to pay the expenses that are incurred. Some individuals pay more into the system than they take out while others are taking out more than they put in. So long as the choice about whether or not to be insured is voluntary, people will be more apt to participate in insurance programs if they believe they will need the benefits. This adverse selection leads to pools of high risk individuals so high insur-

ance premiums are needed to cover the resulting costs. By offering insurance to whole groups with diverse health care needs (such as all the employees within a company), insurance companies are minimizing adverse selection. Unfortunately, tying health insurance to employment reduces the flexibility of our labor force and results in individuals losing their health coverage when they need it the most if they become too sick to work.

One argument for universal coverage is that universal coverage creates the largest possible pool. By spreading the risk over as many people as possible, the premiums can be as low as possible. However, universal coverage within our current insurance system would magnify the problems associated with distorted incentives.

Now that we understand the sources of the problems in our health care system we can discuss what reforms make sense. However, due to the length of this piece, that discussion will have to wait till a later newsletter.

[Editor's note: Part 2 of this article will appear in the Fall 2009 issue of the newsletter.]



WHATEVER HAPPENED TO...YOU?

Do you have a new job or been promoted? Have you gotten married? Do you have a new addition to the family? Or have you been traveling? Please let us know! We are always thrilled to hear from our former students. Please drop your favorite economics professor a note via email, letter, or phone call. You can also visit our alumni webpage at:

www.iup.edu/economics/about
and complete the Alumni Information Form. We would love to hear from you!

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