

Should Physicians Choose Their Reimbursement Rate?

Menu Design for Physician Payment Contracts*

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New draft with revised estimates coming soon.

Abstract

By screening physicians with differentiated contracts, healthcare payers might better address under- and over-treatment. I characterize how efficiency depends on the dispersion and correlation of physicians' marginal cost, altruism, and productivity. I empirically investigate differentiated contracts in the setting of Norwegian primary care, where I find novel reduced-form evidence of multi-dimensional physician heterogeneity. To simulate outcomes under counterfactual menus of contracts, I estimate the joint distribution of physician heterogeneity, exploiting a sudden increase in marginal reimbursement and subsequent changes to treatment intensity. The optimal menu of linear contracts can increase welfare relative to a uniform contract.

Keywords: physician agency, self-selection

JEL Codes: D04, D47, H51, I11, J33

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