

# Module 3: Hospital Pricing and Competition

## Hospital Competition

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# Central Empirical Issues

At least 2 related issues in studying hospital competitiveness:

1. How do we measure "competitiveness"?
2. What is the effect of competition?

# Measuring competitiveness

- Common measure is Herfindahl-Hirschman Index (HHI),  $\sum_{i=1}^N s_i^2$ .
  - 2,500 is considered **highly concentrated**
  - 1,800 is considered **unconcentrated**
- "Willingness to pay" is more recent measure (theoretically supported)
- Both require a measure of the geographic market

# Defining the market

Lots of subjectivity...

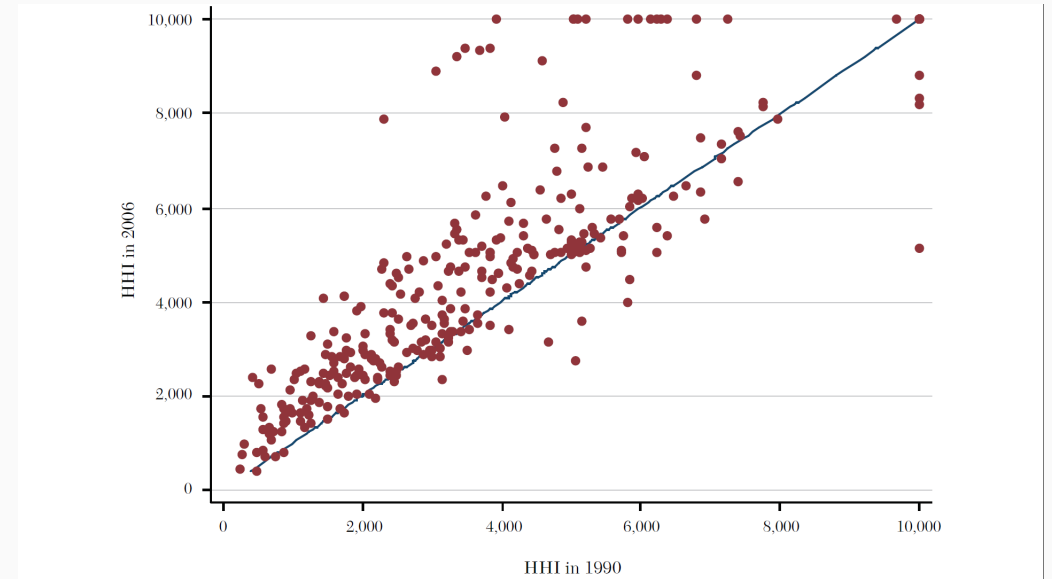
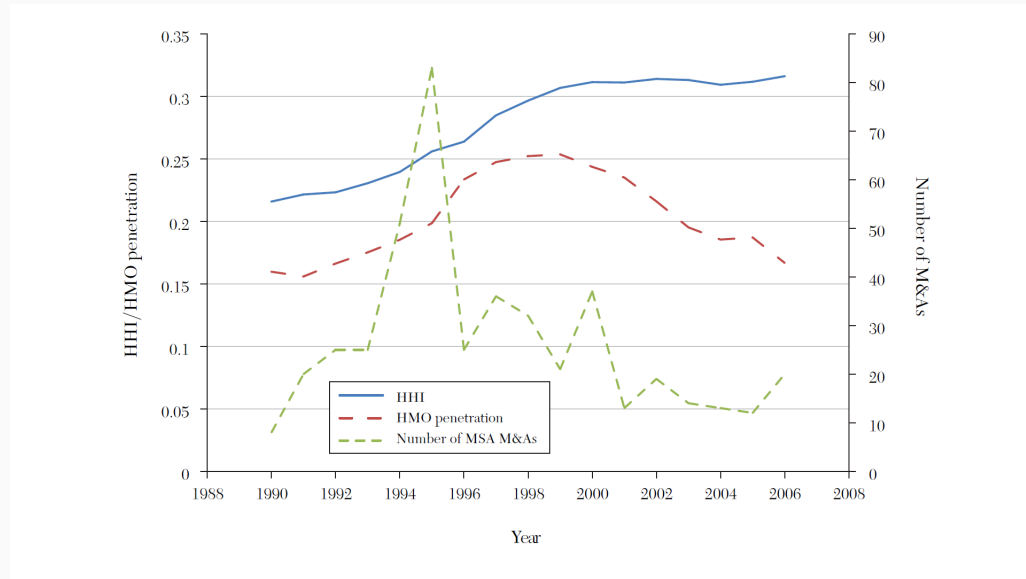
- Radius around a hospital?
- Concentric circles to define "catchment" areas?
- Patient/physician referrals?
- At what product-level do hospitals compete?

# Trends in competitiveness

Almost any way you define it, hospital markets are more and more concentrated (less competitive) in recent decades.

- 1990: 65% of MSAs highly concentrated, 23% unconcentrated
- 2006: 77% highly concentrated, 11% unconcentrated

# Hospital concentration over time



Source: Gaynor, Ho, and Town (2015). The Industrial Organization of Health Care Markets. Journal of Economic Literature.

# Hospital concentration over time

- More data and [interactive report](#) from the Health Care Cost Institute.
- [Presentation](#) from the National Institute for Health Care Management

# Why?

Historical perception of hospital competition as "wasteful" and assumption that more capacity means more (unnecessary) care:

- Limit public spending by limiting competition
- Prevalence of certificate of need (CON) laws



# Effects of reduced competition

1. Higher prices
2. Lower quality, 2020 NEJM Paper
3. Maybe lower costs (but not passed on to lower prices)

Effects for both "in-market" and "out-of-market" mergers