



Module 3: Hospital Pricing and Competition

Part 3: Understanding 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...

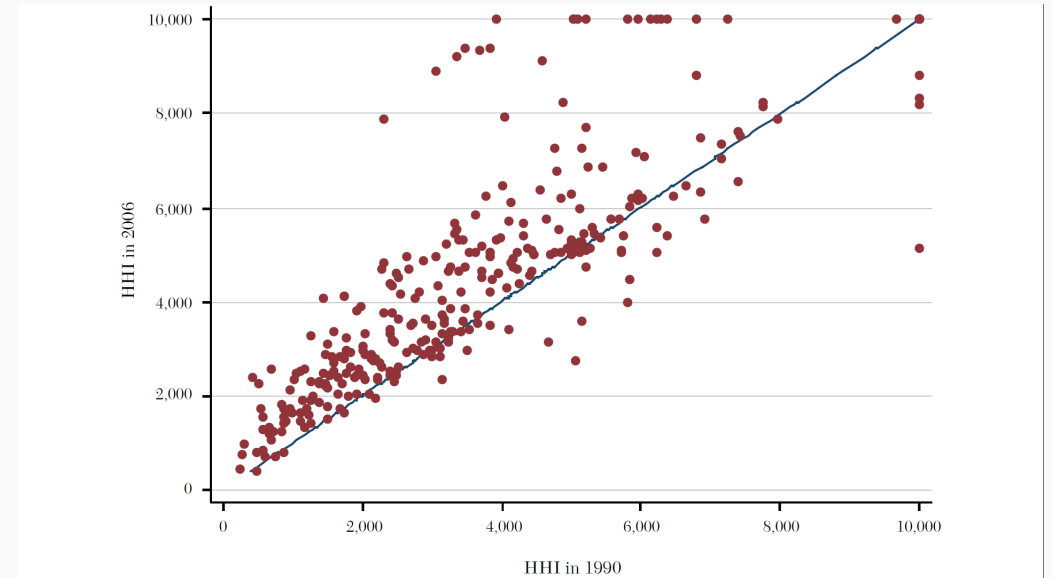
- Radius around a hospital?
- Concentric circles to define "catchment" areas?
- Patient/physician referrals?
- At what product-level do hospitals compete?

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