Market Power and Hospital Prices: Evidence from New Hampshire

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Abstract

This thesis evaluates how insurers and hospitals are able to exert market power in negotiating prices for hospital care, providing a more holistic picture of hospital price negotiations through synthesizing what currently exists as separate in the literature. Using estimates of insurer-hospital-procedure level prices for outpatient radiology services from New Hampshire's HealthCost website, I compare the estimated prices for the same service first across insurers and then across hospitals to evaluate how this relates to the insurer or hospital's market share. I find that the private insurer with the largest market share in New Hampshire's commercial market, Anthem/Matthew Thorton, pays on average 9-24% less than the other two major private insurers with smaller market shares with statistical significance. I also find that hospitals with fewer competitors in their market are able to charge higher prices after controlling for the insurer, quality, typical patient complexity, and socioeconomic/demographic characteristics. The addition of one more hospital to a hospital's market is associated with a 24-32% decrease in the price that hospital can charge for the procedure. However, the effects of hospital competition on negotiated prices vary heterogenously across different insurers, with the two largest insurers being most price sensitive. These results are consistent with the hypothesis that hospital prices are inefficiently influenced by the market power of the negotiating parties, and that policy solutions that can decrease the relative market power of each hospital and increase the market power of insurers may help to reduce prices.