



Economics of Hospital Competition

FTC Microeconomics Conference
November 16, 2012

Federal Trade Commission

Hospital Competition Literature

- SCP approach:
 - Melnick & Keeler (2007), Dranove et al. (2008), and many others using data from 1980s-90s
- Merger event studies:
 - Vita & Sacher (2001), Capps & Dranove (2004), Dafny(2009), HMRP papers
- Semi-structural approach:
 - Town & Vistnes (2001), Capps, Dranove, & Satterthwaite (2003), Gaynor & Vogt (2003)
 - Emphasis on hospital/MCO bargaining



Hospital Antitrust

- Mirrors hospital competition literature
- Early cases focused on geographic market definition and non-profit ownership
 - e.g., Butterworth (1997), Summit/Alta Bates (2001)
- Retrospective merger challenge
 - Evanston/Highland Park (2004)
- Recent merger challenges:
 - Inova/Prince William (2008), Promedica/St. Luke's (2011), OSF/Rockford (2011)
 - Emphasis on lost competition (WTP, diversions, merger simulation)



Questions/Areas for Future Research

- Patient Price Response
 - 19% of insured employees are enrolled in high deductible health plans, up from 8% in 2009
 - Tiered and narrow network plans are also being introduced and may become more prevalent with the health insurance exchanges in 2014
 - How should models of hospital competition incorporate patient price sensitivity?
 - How will high deductible/tiered network plans change hospital competition, if at all?



Questions/Areas for Future Research

- Market Definition
 - Is there a role for market definition with the new tools of hospital merger analysis?
 - If so, how should product and geographic markets be defined? How should market shares be calculated?



Questions/Areas for Future Research

- Price Regulation

- There are some in the health policy community who believe that price regulation, instead of competition, may be needed to control health care costs.
- Should future research focus on a comparison of the costs and benefits of competition vs. price regulation?
- Is current research too focused on price effects? Should there be more research on the effects of competition on quality and amenities, esp. under price regulation?



Questions/Areas for Future Research

- Vertical Integration
 - With health care reform, there is a trend toward more vertical integration in health care markets (e.g., hospital employment of physicians, ACOs, JVs between MCOs and hospitals, etc.).
 - How will this affect how we analyze hospital/health care competition?

