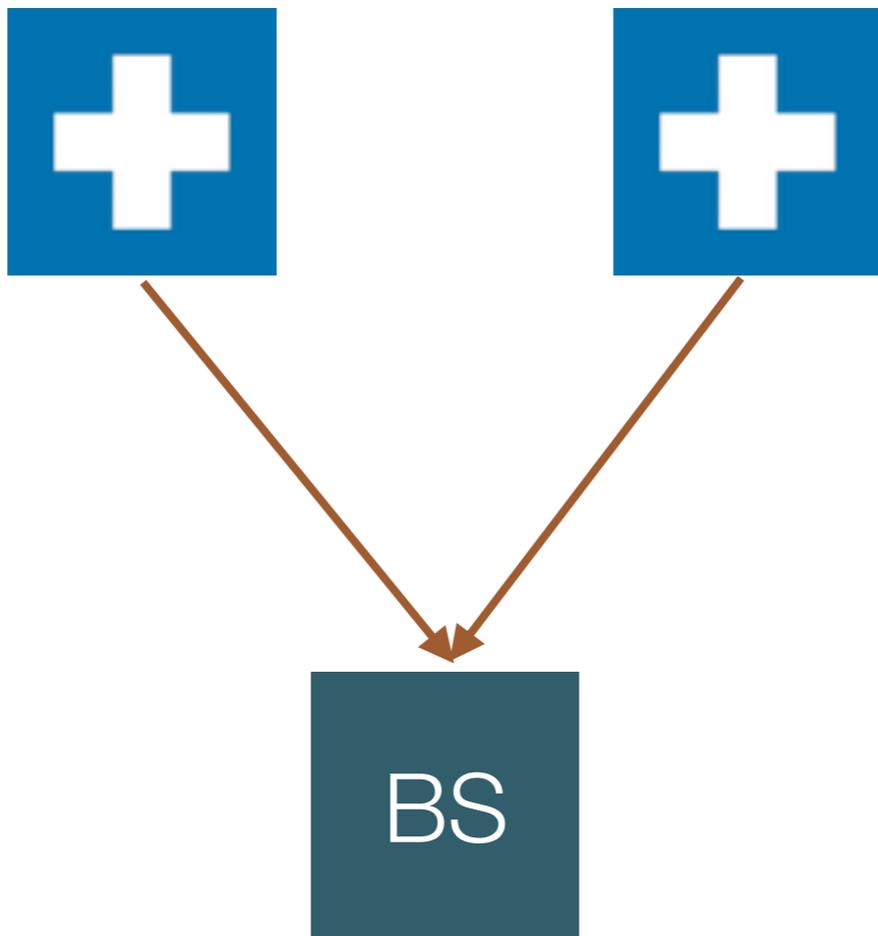
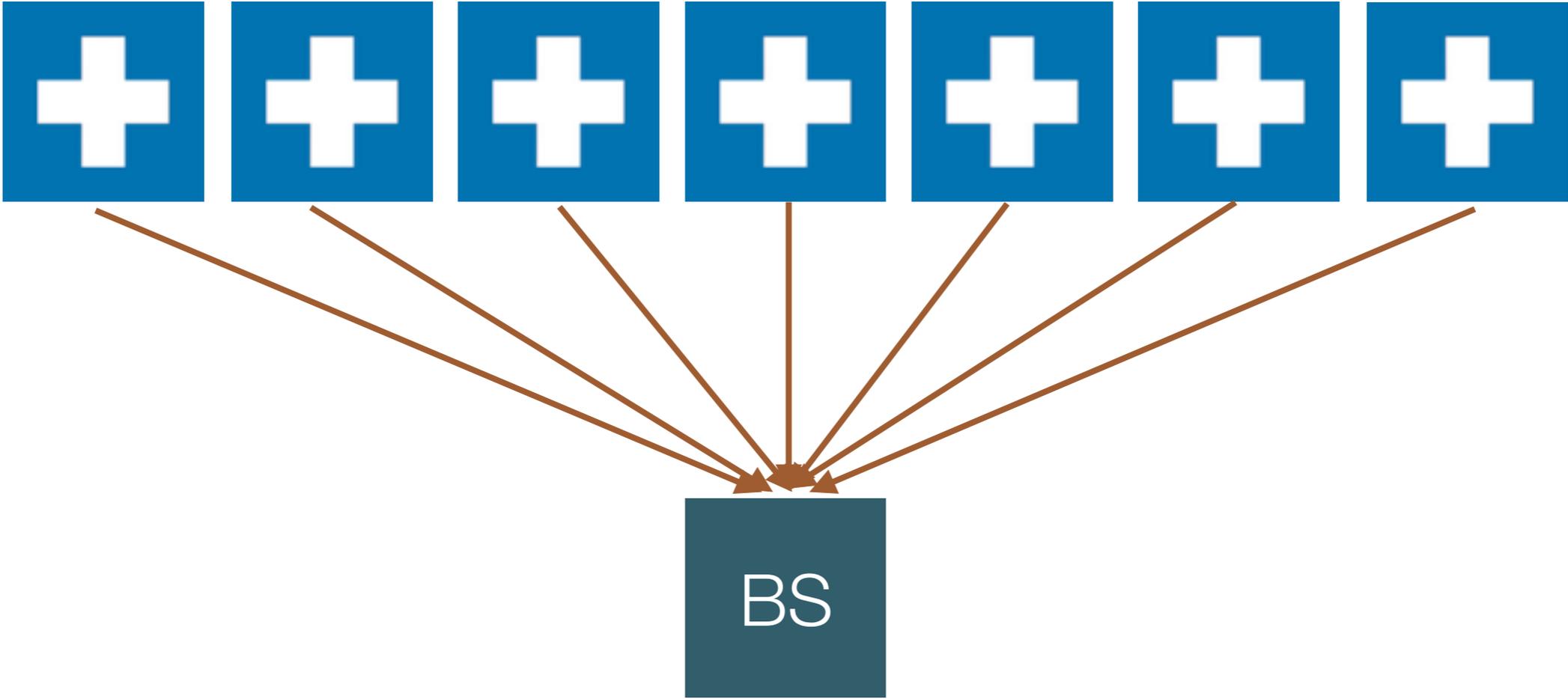


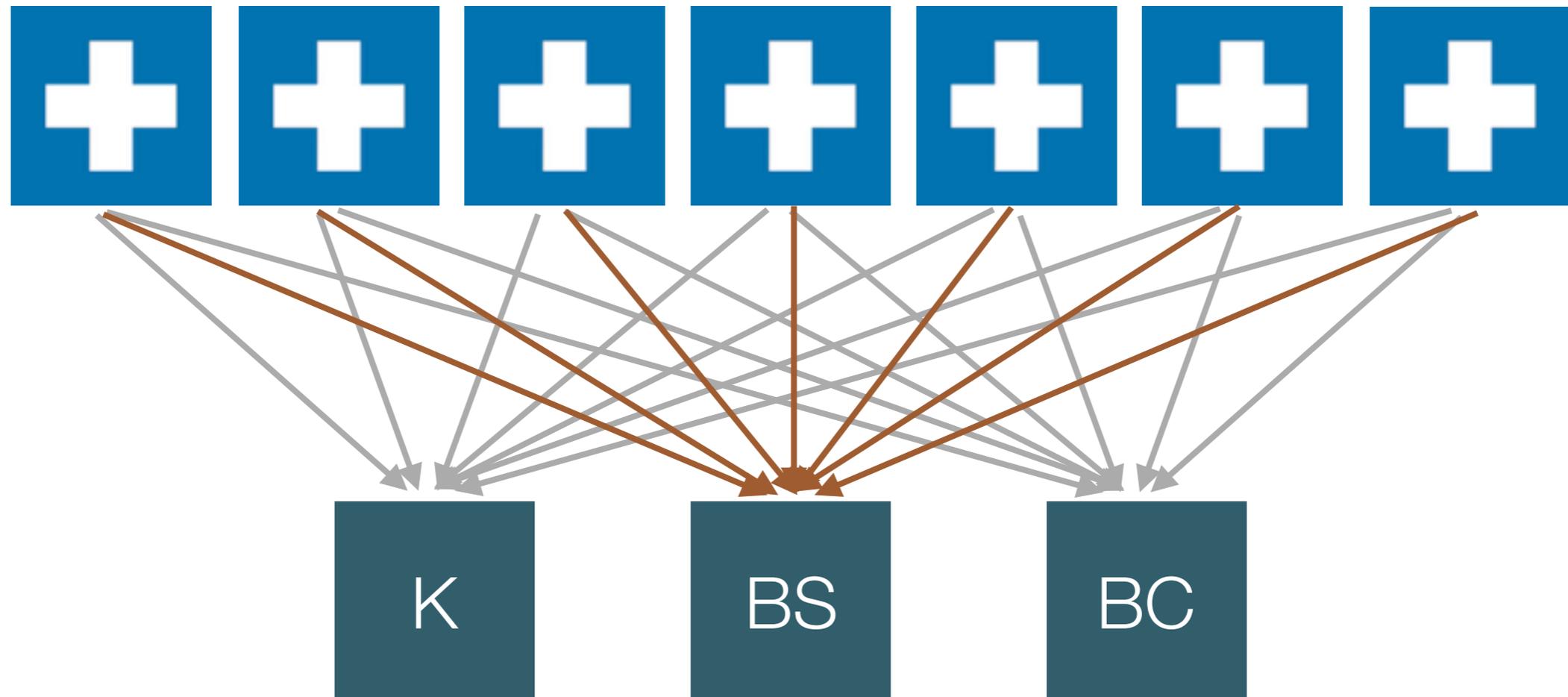
Discussion of “Insurer Competition in Health Care Markets” by Kate Ho and Robin Lee

Joshua Gans
University of Toronto
FTC Workshop, November 2015





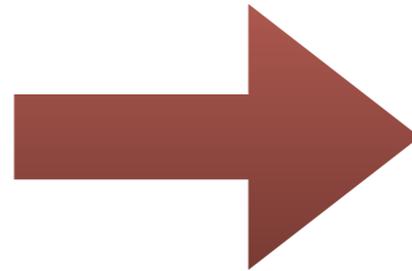
What happens to hospital prices?



Insurer premiums rise

What happens to hospital prices?

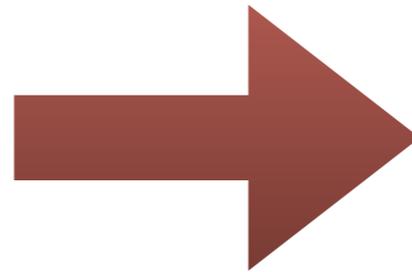
Insurer premiums rise



More surplus for all!



Increases buyer power



Not for hospitals



Is adding an insurer ever bad for welfare?

No: customer facing (downstream) bottlenecks are all that matters

Hart & Tirole (1990), McAfee & Schwartz (1994), Rey and Tirole (2006), de Fontenay and Gans (2005)

Gans (2007): want to measure Lerner index for entire vertical chain

$$VHHI = \frac{1}{\varepsilon} \sum_{i=1}^N s_i \max \{s_i, \sigma_i\}$$

No: more downstream competition means less double marginalization

Spengler, Salinger (1990)

$$VHHI = \frac{1}{\varepsilon} \sum_{j=1}^N s_j \max[s_j, \sigma_j] + \frac{1}{\varepsilon} \sum_{j=1}^N \sigma_j (\sigma_j - s_j) + \sum_{j=1}^N \sum_{i=1}^N \left(\frac{(s_i - \min[s_i, \sigma_i])(\sigma_j - \min[s_j, \sigma_j])}{1 - \sum_i \min[s_i, \sigma_i]} \right)^2$$

Do we believe the countervailing power result?

Why can hospital prices go down when there is insurer concentration?

$$p_{i,j} = \arg \max_{p_{i,j}} \left[\underbrace{\pi_j^M(\mathcal{G}, \mathbf{p}, \phi) - \pi_j^M(\mathcal{G} \setminus ij, \mathbf{p}_{-ij}, \phi)}_{\text{MCO } j\text{'s "gains from trade" with hospital } i} \right]^{\tau_j} \times \left[\underbrace{\pi_i^H(\mathcal{G}, \mathbf{p}, \phi) - \pi_i^H(\mathcal{G} \setminus ij, \mathbf{p}_{-ij}, \phi)}_{\text{Hospital } i\text{'s "gains from trade" with MCO } j} \right]^{(1-\tau_j)} \quad \forall ij \in \mathcal{G}$$



Nash-in-Nash: what happens to your marginal value to the grand coalition?

versus

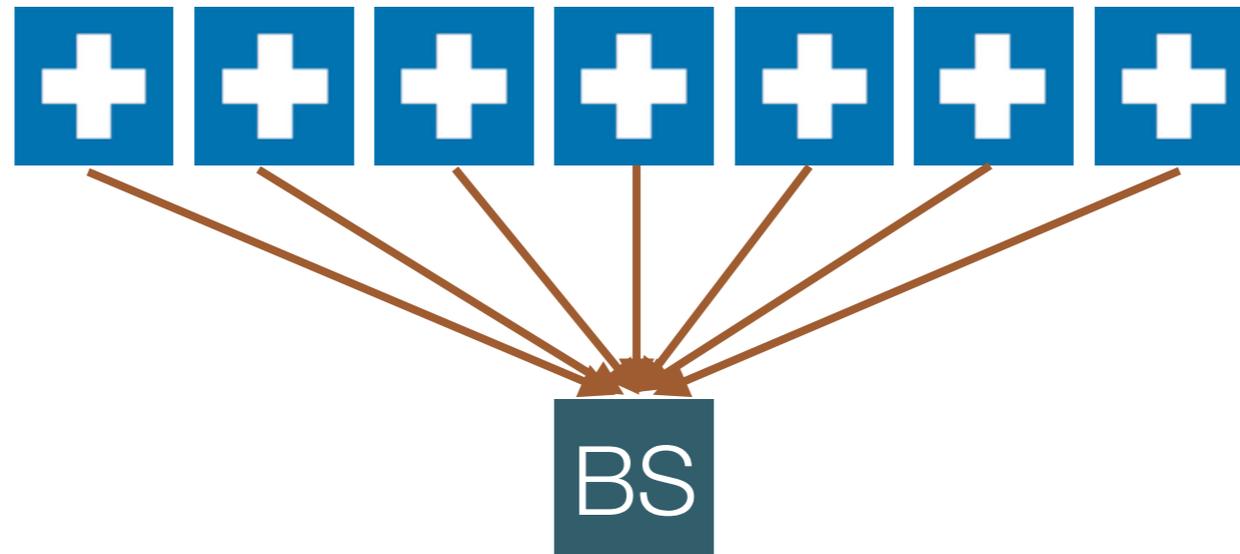
Generalized Myerson-Shapley value
(de Fontenay and Gans, 2014)

Average value to **all** possible coalitions

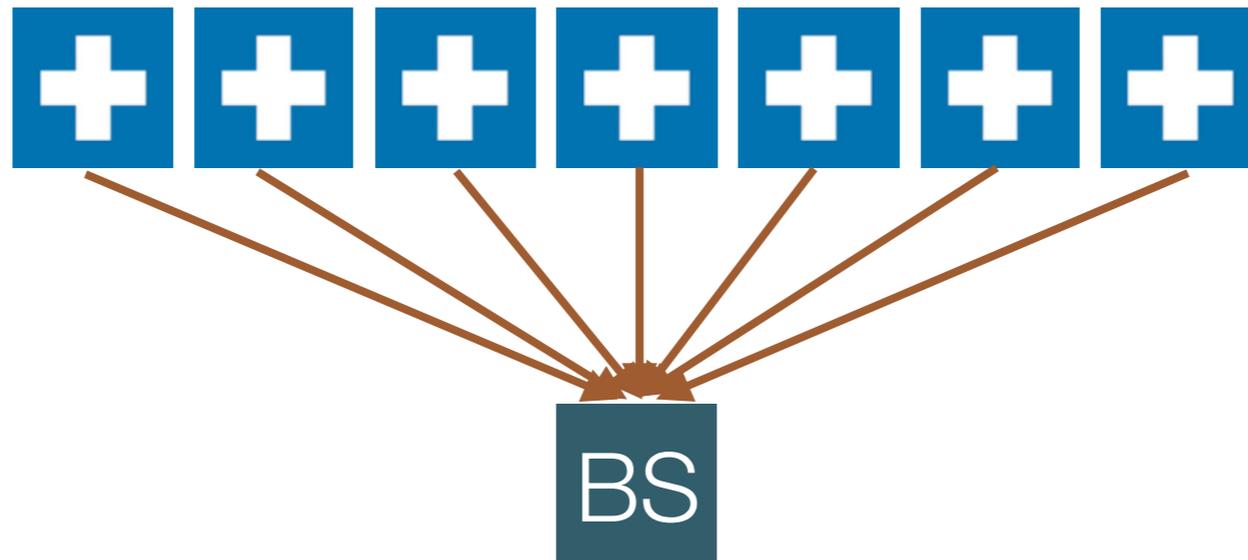
Generalized Myerson-Shapley value (de Fontenay and Gans, 2014)

Average value to **all** possible coalitions

Insurer concentration places weight on this possibility ...



How bad is this for hospitals?



$$\pi_i^H(\mathcal{G}, \mathbf{p}, \phi) = \sum_{n \in \mathcal{G}_i^H} D_{i,n}^H(\cdot)(p_{i,n} - c_i) \quad \text{Ho-Lee: No capacity constraints}$$

... but if hospitals are capacity constrained then they have a good bargaining position even with monopsony.

Implications: Ho-Lee method may underestimate hospital bargaining power

