



Changes in
**HEALTH CARE
FINANCING &
ORGANIZATION**

When Public Payment Declines, Does Cost-Shifting Occur? Hospital and Physician Responses

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Economic Theory and Evidence on Cost Shifting: Hospital and Physician Responses

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Anatomy of a Theory of Provider Behavior

Provider chooses [] according to **Rule** []

Subject to: **Demand** conditions

Cost relations

and **Regulation**

Rule Governing Choice

Independence: Profit (only)

Interdependence: Profit Traded off
against anything

Necessary Condition: Provider must be able
to trade off profit (i.e. have market power)

Evidence: Bernard (2000)

Demand

Independence: Separate populations

Interdependence: Possible crossover
(Medicaid and private insurance)

Regulation induced interdependence: costs
allocated according to “bed-days”

COST

Independence: Strictly linear cost (very unlikely)

Interdependence: Everything else (scale economies +/- ; scope economies +/- ; joint costs)

Evidence: Glied and Zivin (2002)

Summary of Payment Methods

	Medicare	Private
Prices	Pricing Formula Set by Medicare	Negotiated or Set by Plan or Provider
Choice of Plans or Providers	Takes Any Willing Qualified Plan or Provider	Chooses One or a Few Plans or a Subset of Providers

Source: Glazer and McGuire (2003)

Medicare – Private Interactions

- “Compromising” on joint decisions
- Private “repair” of Medicare mistakes
- Is Medicare “strategic” ?