ATHENS

EARIE2018

31 August - 2 September

Abstract book

45th Annual Conference of the European Association for Research in Industrial Economics

earie2018.org

ATHENS UNIVERSITY OF ECONOMICS AND BUSINESS

FOUNDATION FOR ECONOMIC & INDUSTRIAL RESEARCH

A Structural Model of Hospital Competition

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We develop a competition-in-utility framework to model strategic interactions in the hospital industry. We specify hospital objective functions in a flexible manner to reflect managerial decisions (cost-containment efforts, investments to reduce costs or increase quality) as well as non-financial preferences (altruism, empire building). On the demand side, we infer the utilities provided to patients from a two-stage nested model that includes distances between patient homes and hospital locations as well as a high number of two-way fixed effects. On the supply side, we take advantage of the payment reform that was phased in during the period of study to identify the hospital objective functions. Our quasi-linear specification assumes away income effects, but allows the technology of each hospital (e.g. marginal costs) to change within the period. We estimate first-order conditions by GMM and check the validity of second-order conditions. We estimate the model using a French administrative dataset over the 2005-2008 period. We find that utilities are mostly strategic complements and recover the slopes of reaction functions. We simulate payment reforms, keeping demand and hospital preferences fixed but changing reimbursement rates. We show how changes in financial incentives affect local market shares, hospital revenues, the number of hospitalized patients, and patient surplus (both conditional and unconditional to hospitalization).

SESSION 48: Collusion: The Role of the Firms' Objective Function

Welfare-improving Mixed Collusion

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We discuss the conditions for collusion to be sustainable in a mixed market. Our novelty is in considering that the government-owned firm may be a member of the cartel. We study how the objective function of the government-owned firm affects its willingness to tacitly collude, and the sustainability of the cooperative outcome. We conclude that collusion is easier to sustain when the government-owned firm weights equally social welfare and its own profit. The government-owned firm has more incentives to abide by the collusive agreement as the weight it attaches to consumer surplus increases. Finally, we provide an important insight to competition authorities as we find that the participation of a government-owned firm in the agreement may be sufficient to ensure that collusion is welfare-improving.

Can Collusion Promote Sustainable Consumption and Production? Not Beneficially Beyond Duopoly