Adjusted Average per Capita Cost (AAPCC), 51, 58
Adjusted Community Rate (ACR), 58
Administered pricing. See also Medicare; Prospective Payment System (PPS); Resource Based Relative Value Scale (RBRVS)
creates relevance for agency, 124
does in, 52–53, 117
Medicare as a case study in, 20–60
and new products, 19, 32–33
risk adjustment contains, 169–170
reasons for in medical care, 7–12
tendency to contain rents, 13–17
tendency to develop problems over time, 42
used to improve quality, 202–204
Administratively set medical prices problems related to, 13–19
reasons for, 8–12
Agency complementarity with payment incentives, 102–103
in Chalkley-Malcolmson model, 95–96
in Eggleston model, 126–128
in Ellis-McGuire model, 88–93
in for-profit and not-for-profit enterprises, 78, 96, 128
in mental health services, 4
maintenance of traditional medical ethics, 101–102
and physician indebtedness, 89
provider ethics, 4, 123–124
and public subsidies, 124
rationale for not-for-profit and public delivery, 4
Any willing provider, 10
Arrow, Kenneth J., 4–5, 82, 87, 103, 107
Business case for quality, 202–204
Canada, 6, 9–10, 12, 205
Carveouts, 195–197, 200
Chalkley-Malcolmson model of quantity of services, 93–98
Competitive pricing, inapplicability given medical care institutions, 1, 8–13
Cutler-Reber model of selection, 109–115
Demand-side incentives ability to promote quality, 83–88
Diagnosis Related Groups (DRGs)
coding accuracy, 56–57
description, 22–24
heterogeneity within and incentives for selection, 31–32, 123, 135–136
inapplicability to certain hospitals, 27
and outlier payments, 24–25, 123
power of, 39–42
and teaching hospitals, 25–27
and unbundling, 34–35
weights and regulatory lag, 32–33
Dynamic efficiency, 19
Economies of scale, 30–31, 35, 48
Egalitarianism in medical care, 101–102, 185, 190, 206
Eggleston model of selection, 124–146
Ellis-McGuire model of quantity of services, 88–92
Ethics. See Agency
Fee-for-service pricing, 7, 22–61, 204
Formularies, 73–74, 120
Freedom of choice of provider, 9–10
Friedman, Milton, 14, 17

Germany, 3, 10, 12
Great Britain (also United Kingdom), 3, 6, 64, 205

Group insurance
pooling of heterogeneous risks in, 119
pricing in, 105–106, 109
rationale, 5

Health Maintenance Organization (HMO)
basis for reimbursing physicians, 73
characterization of, 68–71
choice of network, 71–73
consumer choice of, 109–114
effects on use of services, 77, 99
in the Medicare program, 21, 53–54,
132–134, 171–172, 205
and rationing of services, 101, 183–184
and standardized benefit, 120
in traditional American delivery system, 65

Hospitals, split decision making between physicians and administrators, 98

Individual insurance, 17
equilibrium may not exist, 118
loadings, 62
preexisting condition clauses in, 107
selection in, 5, 135
supplementary insurance in Medicare, 22, 108
use of medical information to set premium, 106

Inertia in plan changing, 152, 183–184

Information
asymmetric, 5, 107
efforts to improve consumer, 83–87, 202
greater use of in individual than in group insurance market, 106
and health care institutions, 3–6, 9
and incentives for induced demand, 16, 82
poor among consumers, 4–5, 83, 202–203
poor among providers, 77
problems created for insurance, 9, 204–205

risk adjustment using patient reported, 174–175
and salaried systems, 61
and stinting, 82
Integration of insurance and delivery, 63–64
Israel, 3, 64, 205

Keeler-Carter-Newhouse model of market equilibrium, 173–193
Lock-in to job, 107

Managed care
appropriation of provider rents, 63
changes over past two decades, 65–71
definition of, 65, 68
errors in pricing and growth, 60
instruments used by, 11, 71–77
in mental health, 99
models of, 124–146, 173–193
and patient freedom of choice, 10
role of cost sharing, 17–18, 101
types of, 69–71
Managed competition and standardized benefits, 120–121
Medical care markets, differences from standard assumptions, 3–5

Medicaid
Congressional desire to increase use of capitation in, 60
distortion of mix of services in Medicaid plans, 136, 199
in Medicare formula for reimbursing health plans, 54
physician acceptance of patients, 49
supply response to variation in fees, 18, 49, 99

Medicare. See also Prospective Payment System (PPS); Resource Based Relative Value Scale (RBRVS)
additional benefits from rents in health plan payments, 58–59
asymmetric information as cause of enactment, 5
description, 20–22
economies of scale, failure to consider, 30–31, 48–50
geographic adjusters, 49–50, 58
health plan reimbursement, 53–59
hospital reimbursement, 22–42
interactions among various reimbursement systems, 36–37
lessons from for pricing, 59–61
new entrants, 35–36
physician reimbursement, 42–53
and risk adjustment, 170–172
selection by hospital, 135–136
selection by plan, 132–135
Sustainable Growth Rate, 45–48
teaching hospital reimbursement, 25–27, 37–38
upcoding, 56–57
upper limits on benefits, 108
Volume Performance System, 45–48
Mental health and managed behavioral health care 99, 136, 169, 199. See also Carveouts
Moral hazard
and conundrum of health care financing, 204
and demand for medical care, 16–18, 64–67
and health plan reimbursement, 55–56, 167, 171, 182, 192–193
managed care as an instrument to reduce, 64–67
and prevention efforts by health plans, 143–144
and quality, 95
and supply-side cost sharing, 90–93
and supply-side versus demand-side cost sharing, 73, 79–83, 101
Multitasking problem
and business case for quality, 94, 203
and measurement of hospital quality, 84
Netherlands, 3, 64
Networks, 11, 68–74
Noncontractible service and Chalkley-Malcolmson model, 93
Partial capitation. See Supply-side cost sharing
Persistence in health spending over time. See Regression of health care spending to the mean
Physician fees
incentives to underserve or stint, 38, 46, 81–83, 88–98
optimal fee, 43–44
physician response to variation in, 18–19
treatment of overhead costs, 50–51
updating, 45–48
Physician interspecialty income differentials, 14–15, 51–52
Point-of-Service plan (POS), 69–70
Post-acute care, 34–37
Power of administered price systems, 39–42
Preferred Provider Organization (PPO), 69–70, 109–114
Prevention, 77, 144–145
Price competition
among integrated insurance plans, 68
in provider markets, 11–12, 63
in traditional insurance markets, 10–11, 63
Principal Inpatient Procedure-Diagnostic Cost Groups (PIP-DCGs), 55, 199
Program of All-inclusive Care for the Elderly (PACE), 172
Prospective Payment System (PPS) caused reduced use of services, 28–29
description, 22–28
and incentives for selection, 31–32, 123
outlier payments, 24–25
pathologies, 28–38
teaching hospital adjustment, 25–27, 37–38
Quality Adjusted Life Years (QALYs), 177
Quality of health care
business case for quality, 202–204
consumer ability to assess, 4–5
control for in estimating cost, 52
coordination problems, 76–77, 204
demand-side incentives for, 83–88
incentive for health plan to improve, 69, 202–204
information about, 83–84
as noncontractible service, 82, 93–98
optimal, 79
and payment for care, 41, 82–83, 99
potential to improve, 73–77
reputation effects, 85–86
Regression of health care spending to the mean, 153–156
Rent-seeking behavior, 38
Rents in medical prices, 12–19, 38, 46, 52–53, 59–60
Resource Based Relative Value Scale (RBRVS), 42–53
Risk adjustment
adaptation of behavior to, 165–166
and clinical treatment, 169–170
complementarity with reinsurance, 173–176
demographic adjusters, 160–161
diagnosis-based adjusters, 161–169
evaluation of various risk-adjustment methods, 151–153
in Eggleston model, 131–132
in Medicare, 54–57, 170–172
and market equilibrium, 177–196
optimal, 195–200
outlier schemes, 158–160, 183, 192
and patient-reported information, 172–173
retrospective versus prospective, 166–169
with patient-reported information, 172–173
Rothschild-Stiglitz model of health insurance market, 5, 118–120
Salary payments, 61
Selection
and carveouts, 193–195
from consumer actions with passive suppliers, 105–115
costs of, 156–157
in Cutler-Reber model, 109–115
in Eggleston model, 124–146
and enrollment period, 57, 148–149
greater vulnerability with capitation payments, 61
in Keeler-Carter-Newhouse model, 177–193
not attributable to regulation, 105–106
and outlier schemes, 160–162
potential profits from, 149, 154, 164–166, 174–176
privately optimal amount, 124–128
in Shen-Ellis model, 200–202
from supply-side actions, 117–146
welfare loss, 114–115, 121–123
Skewness of health care spending, 147–149
Sticky prices, 15
Stinting or underservice
in Chalkley-Malcolmson model, 93–98
and dispute resolution, 100
in Ellis-McGuire model, 88–93
empirical evidence of, 99–100
greater vulnerability with capitation, 61
Supply-side cost sharing
in Eggleston model of selection, 127–131
in models of stinting, 88–98
and pricing errors, 176
simulation results supporting, 191–193
Switzerland, 3, 64
Technological change, 19, 32–33
Time inconsistency in health insurance, 106–107
Unbundling, 34–35
Variable Cost Insurance, 12–13
Welfare economics
applicability of conventional, 66, 100–101
estimates of welfare loss from selection, 114–115, 185–193
estimates of welfare loss from varying cost sharing, 190–193