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The Hospital Industry

Comprehension Questions

Indicate whether the statement is true or false, and justify your answer. Be sure to cite evidence from the chapter and state any additional assumptions you may need.

1. American hospital admission rates have dropped in the past two decades.

   TRUE. Per capita hospitalization rates in the U.S. have dropped sharply between 1990 and 2010. In 1990, there were about 13,800 hospitalizations per 100,000 people in the U.S., while in 2010 there were about 12,549. This decline happened despite an increase in the average age of the American population.

2. There were more hospitals in the U.S. in the late 1990s than there were in 1940; the largest source of growth has been among for-profit hospitals.

   TRUE. Part of this growth was spurred by the Hill-Burton Act of 1946.

3. The average length of hospital stays in the U.S. has remained flat after a sharp decline in the 1980s.

   FALSE. The average length of hospital stays in the U.S. has been falling as a result of the shift toward outpatient care due to both technological advances and financial incentives.

4. Higher values of the Herfindahl-Hirschman index indicate higher levels of competition in those markets.

FALSE. The formula for HHI is $\sum s_i^2$, where s_i is firm i's market share. The least competitive market, a monopoly, has $HHI = 1$. Higher values of HHI indicate *lower* levels of competition.

5. The hospital's experience with cardiac catheterization is at least as important as the cardiologist's experience in reducing complication rates following percutaneous coronary intervention (PCI).

   TRUE. In fact, McGrath et al. (2000) find that hospital experience is typically *more* important, likely because such complex procedures require coordination by multiple medical specialists.

6. Nonprofit firms can legally raise funds by issuing stock.

   FALSE. Nonprofit firms are forbidden from issuing stock, one of the costs to organizing as a nonprofit.

7. Consider the following theory due to Arrow (1963): nonprofits exist because for-profit firms are less trustworthy in the performance of actions that are hard to observe. According to this theory, government regulations requiring hospitals to report data on outcomes should lead to a lower share of nonprofit production in the hospital industry.

   TRUE. If Arrow's asymmetric information and failure of trust hypothesis explains the existence of nonprofits, then government regulations increasing transparency should lower the appeal of nonprofit status.

8. Medical arms races, since they are a form of private competition, lead to socially optimal levels of technology acquisition by hospitals.

   FALSE. Medical arms races can produce redundancy of medical technology and overconsumption of hospital care. Even though medical arms races are a form of private competition, the existence of health insurance, moral hazard, and asymmetric knowledge about medical care between doctors and patients can combine to distort the market.

9. Uncompensated care in the United States is almost entirely covered by government programs like Medicare and Medicaid.

   FALSE. Medicare, Medicaid, local and state governments, hospital shareholders, and other, non-indigent hospital customers all absorb at least some of the costs of uncompensated care (Hadley and Holahan 2003).

10. Doctors are typically direct employees of hospitals in the U.S., whereas in the U.K., they do most of their work in private practice settings.

    FALSE. In the U.K., doctors are typically direct employees of the National Health Service. U.S. doctors typically run private practices while maintaining a working relationship with hospitals, although in recent years, there have been increasing number of hospitalists who work as direct employees of hospitals.

11. In a DRG payment system, hospitals receive payment according to the number of services rendered.

    FALSE. DRG payment systems compensate hospitals based on the patient diagnoses. For example, a Medicare patient entering the hospital with kidney failure earns the hospital the same amount regardless of the actual services rendered (under some regulation by Medicare). A payment system based on number of services rendered is known as a fee-for-service model.