“How do hospitals respond to price changes? Evidence from Norway”

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Many publicly funded health systems use prospective activity-based financing to increase hospital production and efficiency. The aim of this study is to investigate whether price changes for different treatments affect the mix of activity provided by hospitals. We exploit variations in prices created by changes in the national average treatment cost per DRG offered to Norwegian hospitals over a period of five years (2003-2007). We use data from the Norwegian Patient Register, containing individual-level information on age, gender, type of treatment, diagnosis, number of co-morbidities and the national average treatment costs per DRG. To examine the changes in activity within the DRGs over time, fixed-effect models are applied. The results suggest that a ten-percent increase in price leads to a rise of one percent in the number of patients treated. This increase is mainly due to more admission of emergency patients, rather than to increases in elective activity.