

# Quality Competition, Mergers and Altruism in Hospital Markets - An Experimental Investigation

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## Abstract:

Based on a Salop model with regulated prices, we investigate quality provision behavior of competing hospitals before and after a merger. For this, we use a laboratory experiment where subjects decide on the level of treatment quality as head of a hospital. A market consists of three hospitals and a unit mass of patients. In the experiment, patients are simulated, yet the subjects are aware that monetary benefits resulting from quality choices go to real patients outside the lab. After 15 decision rounds, two random hospitals are exogenously merged to an entity and compete for another 15 rounds with the remaining hospital. We find that post-merger average quality levels are significantly lower compared to a competition scenario with three hospitals. However, for both, the merger insiders and the outsider, average quality levels are significantly higher than the predicted Nash equilibrium levels without altruism. To explain the differences between predicted quality levels and actual choices, we focus on individual behavior. We find heterogeneity in quality choices with a substantial amount of patient-oriented choices (altruistic behavior). Controlling for the competition effect, we observe a similar pattern for a monopoly treatment. This suggests that even in competitive hospital markets individual altruism levels should be considered when investigating merger effects.

*Keywords:* hospital mergers, Quality competition, altruism, laboratory experiment

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