

P4P, Reputation and the Reduction of Costly Overprovision

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Abstract

We investigate the effect of an increase in price (a higher fee-for-service) on the total amount of medical treatment delivered by physicians. We assume that physicians differ in their degree of altruism, enjoy being perceived as good but dislike being perceived as money-driven. If the fee-for-service is sufficiently high such that patients suffer from overprovision, we show that a further increase in the fee-for-service may increase or decrease aggregate output. Furthermore, we show that better reputation unambiguously decreases output and yields to a reduction of costly overprovision. We then introduce a measure of efficiency for the incentive scheme induced by a given fee-for-service. We show that there exists an efficiency maximizing fee-for-service that decreases with better reputation. For policy makers, promoting reputation may therefore both decrease the costs in the healthcare system and increase patients' benefits of medical treatment.

Keywords: altruism, performance, motivation

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