

A Theoretical Analysis of the Dumping Problem under Asymmetric Information*

Tsuyoshi Takahara[†]

Graduate School of Economics, Osaka University

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Abstract

In this paper, I analyze the rationale for official authorization of dumping the patients in the framework of the prospective payment policy. The payer such as the government can specify the health care payment and the cost reduction effort level. I show that when the payer designs the health care payment policy to let the hospitals dump the high cost patients, there is a trade-off between the dis-utility of dumped patients, changes of rent extracting for the hospitals due to light severity patients, and the shift of cost reduction effort level of the public hospital for the high severity patients. I also clarify the conditions under which it is welfare-improving to allow the hospital to dump the high severity patients.

JEL Classification Code: I13, I18, L51

Keywords: Dumping problem; Health care payment policy; Cost reduction effort

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[†]Graduate School of Economics, Osaka University Address: 1-7 Machikaneyama, Toyonaka, Osaka, 560-0043, Japan. E-mail address: mge012tt@student.econ.osaka-u.ac.jp