

Quality Competition, Location Choice, and Ownership Conversion in the Health Care Market*

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Abstract

This study analyses the impact of ownership conversion on hospital outcomes and social welfare. In the analysis, we apply a Hotelling model, where the private hospital is at the centre of the city and the altruistic public hospital in a suburban area and they compete in treatment quality, after the public hospital decides its location. Through comparative statistics, we show that in the short-term, where the public hospital cannot change its location, privatisation worsens both hospitals treatment quality. However, in the long-term, where the public hospital changes its location, although privatisation worsens the treatment quality of the public hospital, it improves the treatment quality of the private hospital when the health care payment is high. Finally, we show the condition under which hospital privatisation is welfare-improving.

JEL Classification Code: I13; I18; L13; L33;

Keywords: Privatisation; Hotelling model; Altruistic provider

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