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Physician Agency and Patient Survival*

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Abstract

We investigate the role of physician agency in determining health care supply and patient outcomes. We show that an increase in health care supply due to a change in private physician incentives has a theoretically ambiguous impact on patient welfare. The increase can reflect either induced demand for ineffective care or a reduction in prior rationing of effective care. Furthermore, physician market structure matters in determining the welfare effects of changes in private physician incentives. We then analyze a change to Medicare fees that caused physicians to increase their provision of chemotherapy. We find that this increase in treatment improved patient survival, extending median life expectancy for lung cancer patients by about 18%. Consistent with the model, we find that while the treatment response was larger in less concentrated markets, survival improvements were larger in more concentrated markets.

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