

Establishing Demand Inelasticity for Neurosurgeons Richard P Menger MD, MPA; Christopher Storey MD PhD; Anil Nanda MD FACS LSU Health Sciences Center-Shreveport Harvard John F Kennedy School of Government

Introduction

The era of the Affordable Care Act has ushered in an unprecedented merger and combination of health entities. Insurance companies and hospital systems are merging to expand their market power. The goal is to control prices and patients, in order to maximize marginal income. Neurosurgeons need to embrace, understand, and utilize the basic principles of economic demand inelasticity in order to protect themselves against oligopolistic hospital collusion. This will allow them to provide the best possible care to patients in the most efficient way.

Methods

Demand for neurosurgical services/coverage by a hospital can either by elastic or inelastic. If the price increase doesn't change demand for the service, the service is said to have perfectly inelastic demand. The quantity of neurosurgical services demanded by the hospital would, in theory, not change based on the price requested by the neurosurgical physicians. Elastic demand on the other hand is very price sensitive.

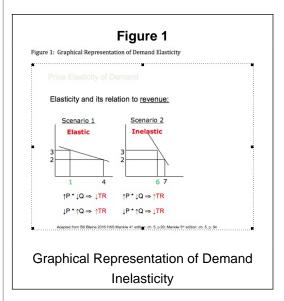
Neurosurgeons can create demand inelasticity for their services by applying adapted rules of economics.

Results

There are seven rules that can be utilized to improve demand inelasticity for a neurosurgeon by a hospital system: 1)Demonstrate neurosurgery as a necessity 2) Frame physician fee as a percentage of hospital income or total diagnosis charge 3)Do not allow close substitutes/competition 4)Shrink the time horizon for decision making 5)Create brand loyalty 6)Capitalize on moral hazard where appropriate 7) Define the scope of the market narrowly.

Conclusions

The purpose of these concepts is to allow patients to receive the best care possible. Neurosurgeons face tremendous pressure from hospital mergers as they utilize the principles of economics against physician groups. Awareness of these principles can allow the neurosurgeon to maximize hospital demand for his or her services. This will increase local market share and power allowing the neurosurgeon to generate appropriate compensation while providing the best access to care possible.



Learning Objectives

1) Understand the impact of market power of neurosurgical care 2) Understand basic economics principles and how they apply to neurosurgical care 3) Utilize the principles of economics to ensure the best access to neurosurgical care

References

1) Mankiw G, Principles of Microeconomics. 7th Edition. 2015

Blaine, B, Lectures Quantitative
Microeconomics, Harvard Kennedy
School of Government, July-August,
2015.