

Bargaining under Dynamic Regulation on Reimbursement
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This paper quantifies distortionary incentives created by government regulation on reimbursement for a medical device. The reimbursement prices are set endogenously to the transaction prices between producers and hospitals. It creates a window of opportunity for the agents to influence future reimbursement prices. The paper applies a bilateral bargaining model of negotiated prices to Japanese cardiac pacemakers. The structural estimates indicate that the transaction prices were 8 percent higher than those under the counter-factual scenario where no dynamic incentives were present.