

On the effect of prospective payment on hospital efficiency in Germany

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March 31, 2012

Abstract

The introduction of prospective hospital reimbursement based on diagnosis related groups (DRG) in 2004 has been a conspicuous attempt to increase hospital efficiency in the German health sector. In this paper the effect of the financial reform on hospital efficiency is subjected to empirical testing by means of a comparative application of parametric and non-parametric frontier models. Hospital data are extracted from the annual hospital statistics (“Krankenhausstatistik”) collected by the statistical offices of the federal states (“Statistische Landesämter”). Annual data cover the period from 1995 until 2006 and have been provided by the “Forschungsdatenzentrum der Statistischen Landesämter - Standort Kiel/Hamburg”. While accounting for technological progress to identify efficiency gains as a consequence of changes in the hospital incentive structure the results reveal a decrease in overall efficiency after the DRG introduction.

JEL-Classification: C21, D61, I11, I18

Keywords: Hospital efficiency, stochastic frontier analysis, data envelopment analysis, diagnosis related groups

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