

Vertical Integration and Treatment Choices: Evidence from Cardiologists*

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Abstract

I study the effects of integration between referring physicians and specialists in cardiology. To address concerns of endogeneity of integration, I exploit a change in Medicare payment rates which increased the financial benefit to vertically integrating for cardiologists. Instrumental variables estimates show that cardiologists who work in the same practice as cardiac surgeons are 7.7% more likely to refer patients for surgery rather than more conservative options. Patients diagnosed by integrated cardiologists in turn have worse mortality and readmission outcomes, with 18.7% higher mortality risk and 13.4% higher risk of readmission for AMI within 180 days. This is in spite of the fact that patients diagnosed by integrated cardiologists have 7.8% medical spending in the 180 days following diagnosis. I provide evidence that these effects are not driven by inherent risks of invasive surgery or selection on patient observables, but worse outcomes for patients receiving the most conservative treatment option.

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