

Contents

List of Figures	<i>page</i> xiv
List of Tables	xvi
Acknowledgments	xvii
Table of Cases	xviii
1 Health Care Markets and Competition Policy	1
1.1 The Marketplace of Health Care Spending	1
1.2 Competitive Concerns	3
1.3 Antitrust Policy	4
1.4 Plan of the Book	5
1.5 Concluding Remarks	12
2 Antitrust Policy in the United States	14
2.1 Introduction	14
2.2 The Economic Rationale for Antitrust Policy	14
2.3 Political Foundation of Antitrust Policy	19
2.4 Antitrust Treatment of Monopoly and Cartels	23
2.5 The Clayton Act	26
2.6 Private Antitrust Suits	27
2.7 Class Action Suits	31
2.8 Concluding Remarks	33
PART I MONOPOLY	35
3 Patents and Monopoly Pricing of Pharmaceuticals	37
3.1 Introduction	37
3.2 The Patent System	39
3.3 Patents and Monopoly Pricing	42

viii CONTENTS

3.4	Patent Licensing	47
3.5	Antitrust Remedies	51
3.6	Government Policy Proposals toward Prescription Drug Pricing	52
3.7	Extensions: Medical Devices and Orphan Drugs	64
3.8	Concluding Remarks	68
4	Patents and Exclusionary Product Hopping	74
4.1	Introduction	74
4.2	Exclusionary Product Hopping	75
4.3	Legal Challenges to Product Hopping	78
4.4	Solutions, If Any	88
4.5	Concluding Remarks	92
5	Bundled Discounts and PeaceHealth	95
5.1	Introduction	95
5.2	Bundled Discounts	96
5.3	Bundled Discounts in Health Care Settings	99
5.4	Anomalies of the Discount Attribution Test	105
5.5	Antitrust Treatment of Bundled Discounts	109
5.6	Concluding Remarks	112
	PART II SELLER CARTELS	113
6	Collusion in Health Care Markets	117
6.1	Introduction	117
6.2	A Basic Cartel Model	117
6.3	Collusion among Physicians and Surgeons	121
6.4	Collusion among Hospitals	126
6.5	Collusion among Pharmaceutical Manufacturers	128
6.6	Collusion among Medical Device Manufacturers	131
6.7	Collusion among Health Insurers	132
6.8	Concluding Remarks	134

7	Collusion in Generic Drug Markets	136
7.1	Introduction	136
7.2	The Competitive Promise of Generic Pharmaceuticals	137
7.3	The Incentive to Collude	140
7.4	The Alleged Conspiracies	142
7.5	Economic Consequences of Collusion	150
7.6	Deterring Price Fixing	152
7.7	Concluding Remarks	154
	Appendix: Alleged Participants in Generic Pharmaceutical Drug Conspiracy	154
8	The Hatch-Waxman Act, Patent Infringement Suits, and Reverse Payments	168
8.1	Introduction	168
8.2	The Hatch-Waxman Act	169
8.3	Reverse Payment Settlements	172
8.4	The <i>Actavis</i> Decision	177
8.5	The Post- <i>Actavis</i> Experience	186
8.6	Legislative Remedies	192
8.7	Private Damage Actions	197
8.8	Concluding Remarks	200
	Appendix: The Economics of Settlements	200
9	The Alleged Insulin Conspiracy	204
9.1	Introduction	204
9.2	Insulin: A Brief History	205
9.3	The US Insulin Market	207
9.4	Pharmacy Benefit Managers	215
9.5	Collusion in the Insulin Market	220
9.6	Concluding Remarks	225
10	Licensing of Health Care Professionals	230
10.1	Introduction	230
10.2	Economic Concerns with Professional Licensing	232

X CONTENTS

10.3	<i>North Carolina Dental</i> and the State Action Doctrine	236
10.4	Licensing to Exclude Competition	242
10.5	Economic Effects of Mandated Supervision	245
10.6	The Empirical Evidence	249
10.7	Concluding Remarks	250
PART III MONOPSONY		255
11	Monopsony, Dominant Buyers, and Oligopsony	257
11.1	Introduction	257
11.2	Basic Model	258
11.3	Dominant Buyer Model	267
11.4	Oligopsony	270
11.5	Monopsony in Health Insurance Markets	273
11.6	Antitrust Treatment of Monopsony	275
11.7	Concluding Remarks	277
12	Countervailing Power: Physician Collective Bargaining	279
12.1	Introduction	279
12.2	Bilateral Monopoly	280
12.3	Physician Cooperative Bargaining	286
12.4	Competitive Concerns	296
12.5	Concluding Remarks	298
13	Group Purchasing Organizations, Monopsony, and Antitrust Policy	300
13.1	Introduction	300
13.2	What Do We Know about GPOs?	301
13.3	GPOs and the Exercise of Monopsony Power	302
13.4	Foreclosure of Suppliers	307
13.5	GPO Funding Mechanisms	312
13.6	Antitrust Enforcement Policy	315
13.7	Concluding Remarks	319

PART IV BUYER CARTELS	323
14 Collusion in the Nurse Labor Market	325
14.1 Introduction	325
14.2 The Shortage of Nurses	326
14.3 A Simple Analysis of an Employer Cartel	329
14.4 Recent Antitrust Litigation	333
14.5 Antitrust Damages	336
14.6 Antitrust Policy	341
14.7 Concluding Remarks	343
15 Collusion in the Oocyte Market	345
15.1 Introduction	345
15.2 Collusion in the Oocyte Market	346
15.3 Antitrust Standards	348
15.4 Economic Effects of Price Ceilings	351
15.5 Rule of Reason Analysis	352
15.6 Antitrust Injury and Damages	357
15.7 Disposition of <i>Kamakahi</i>	362
15.8 Concluding Remarks	365
16 No-Poaching Agreements and Antitrust Policy	368
16.1 Introduction	368
16.2 Background	370
16.3 No-Poaching Agreements in Health Care: <i>Seaman v. Duke University</i>	373
16.4 Damage Theory	375
16.5 Government Regulation	381
16.6 Concluding Remarks	383
PART V MERGERS AND ACQUISITIONS	385
17 The Economics of Horizontal Mergers	389
17.1 Introduction	389
17.2 Mergers to Monopoly	390

xii CONTENTS

17.3 Mergers of Producers to Realize Efficiencies	393
17.4 Mergers of Buyers to Realize Efficiencies	397
17.5 Merger Efficiencies Resulting in Increased Quality	401
17.6 Concluding Remarks	404
 18 Horizontal Merger Policy	 405
18.1 Introduction	405
18.2 Horizontal Merger Policy	406
18.3 Defining the Relevant Antitrust Market	410
18.4 Economic Evidence of Competitive Effects	412
18.5 Mergers and Their Anticompetitive Effects: <i>Sutter Health</i>	415
18.6 Agency Analysis of Mergers in Health Care Markets	419
18.7 Concluding Remarks	431
 19 The Economic Theory of Vertical Integration	 434
19.1 Introduction	434
19.2 Vertical Integration	435
19.3 Vertical Integration and Competitive Distribution	439
19.4 Successive Monopolies in Production and Distribution	444
19.5 Competitive Concerns with Vertical Mergers	448
19.6 Empirical Evidence on Vertical Mergers	450
19.7 Mergers of Complementary Input Suppliers	451
19.8 Concluding Remarks	455
 20 Vertical Merger Policy	 457
20.1 Introduction	457
20.2 Legal Foundation	458
20.3 The 2020 Vertical Merger Guidelines	461
20.4 A Merger in Biotechnology: Illumina/GRAIL	465
20.5 The Merger of a Health Insurer and a Physician Group: UnitedHealthcare/DaVita	469

20.6 The Merger of a Hospital System and a Physician Group:	
St. Luke’s/Saltzer	472
20.7 Concluding Remarks	476
21 Concluding Remarks	479
Index	482