

**Fraud and Other-Regarding Preferences in a Health Care Market**Christian Waibel¹¹ Cologne Graduate School in Management, Economics and Social Sciences, University of Cologne, Cologne, GERMANYContact: waibel@wiso.uni-koeln.de

Objetivos (Objectives): This paper analyzes the impact of other-regarding preferences on the level of fraud in a health care market. Medical services are considered to be credence goods, i.e. goods for which customers do not know which quality they need. We show that in contrast to intuition, the level of fraud does not necessarily decrease in equilibrium when introducing the other-regarding preferences but may even rise. We also derive practical implications.

Metodologia (Methodology): We introduce other-regarding preferences into Wolinsky's (1993) credence goods framework. Wolinsky investigates the physician's incentive to overcharge a patient when patients can consult another physician for a second opinion. When receiving the diagnosis of a major disease, patients trade off between accepting the diagnosis and costly searching for a second opinion. The physicians decide about whether to overcharge patients with a minor disease or whether to treat them honestly. While defrauding yields higher monetary payoffs it includes the risk that patients might consult another physician. In our model, physicians do not only care about monetary incentives but also about the social norm of being honest. Physicians therefore face "conscience costs" when they overcharge their patients. Patients do not only care about their monetary costs of the treatment but also incur "trust costs" when they are charged for the major treatment. This is because patients anticipate that they may have been overcharged. A first intuition would lead to the conclusion that introducing the above mentioned preferences lowers the level of fraud in the market. We show that this intuition does not necessarily hold in equilibrium.

Resultados (Results): Given that the physicians' "conscience costs" are low, introducing the other-regarding preferences leads to a decrease in the level of overcharging if the level of fraud in the market used to be low. If, on the other, the level of fraud used to be high, the level of overcharging increases. This is because physicians anticipate that many of their patients are on their second visit and therefore accept any diagnose. Given that "conscience costs" are high, only an equilibrium without fraud remains.

Conclusões (Conclusions): The implications of the model are twofold: Sensitizing patients for overcharging lowers the level of fraud if the market currently experiences a low level of fraud but it increases fraud if the level of fraud is already high. A more morally focused education of the physicians will always decrease the number of searches for a second opinion and therefore increase efficiency. It might even lead to a market without fraud if the conscience costs are high enough.