

**HOSPITAL AUTONOMISATION
IN BOGOTA, COLOMBIA:
A TRANSACTION COST ECONOMICS ANALYSIS**

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Statement of own work

I have read and understood the School's definition of plagiarism and cheating given in the Research Degrees Handbook. I declare that this thesis is my own work, and that I have acknowledged all results and quotations from the published or unpublished work of other people.

Signed

A handwritten signature in black ink, appearing to read 'Ramon Abel Castano-Yepes', enclosed within a light gray rectangular border.

Date: June 21st, 2007

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ABSTRACT

Background: Granting autonomy to public hospitals implies a shift from hierarchical to contract-based relationships with health authorities. Contractual relationships show transactions costs, which stem from relationship-specific investments and contract incompleteness. Transaction cost economics theory predicts that the parties involved in exchanges seek to reduce transaction costs.

Objective: To describe and analyse the types of relationships observed between purchasers and the 22 public providers of health care services in the public sector of Bogota, Colombia, and how transaction cost economics or other new institutional economic theories explain these relationships.

Methods: in-depth interviews with hospital managers and officers from five ARSs (health insurers) and the local health authority (SOH); document review; secondary data analysis.

Findings: SOH/hospital relationships were long-term, but as a result of *ex-ante* bilateral monopolies. Cooperation both created and reduced transactions costs. Although relationship-specific investments and contract incompleteness existed, transactions costs associated mainly with contract incompleteness.

ARSs relationships with local hospitals for low complexity services, were long-term due to regulations. For high-complexity services, no restrictions applied and relationships suggested transaction cost minimizing behaviour. Contract incompleteness was found to be a source of transaction costs on its own. Hierarchical relationships with the SOH persisted, but they were weaker, the lower the share of revenues that each hospital derived from the SOH.

The findings regarding the SOH were not explained by transactions cost economics; only public choice theory appears to provide a logical explanation. The findings regarding the relationships between ARSs and high-complexity hospitals were illuminated by transaction cost economic arguments. Inadequate allocation of property rights appears to explain the low predictive power of transaction cost economics theory.

Conclusions: Transaction cost economics partially explains the findings regarding relationships with ARS, and provides little explanation to relationships with SOH. Contract incompleteness by itself appeared to be a source of transaction costs.