

Exploring the Nexus between Certainty in Injury Compensation and Treatment Selection*

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Abstract

We study how legal and financial incentives affect medical decisions. Using patient-level data, we identify the effect of a change in medical liability pressure exploiting the geographical distribution of hospitals across court districts, where some districts improve the certainty of expected damages per injury while others do not. As certainty increases, unnecessary c-sections increase by 20%. This increase is higher for hospitals with lower quality, farther from consumers associations, facing lower expected damages, and paid more per c-section. Combining the difference-in-difference with a regression discontinuity design, we show that the effect is already detectable in the short-run. .

JEL Classification: K13; K32; I13

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