

Providers and Profiteers:
Essays on Profits and Competition in the Provision of Public
Services

Sebastian Larsson

ACADEMIC THESIS

which has been duly authorized for defense in pursuit of the PhD degree
at the School of Business, Economics and Law, University of Gothenburg,
to be presented for public examination
Tuesday the 25 of January, at 10.15, AM, in lecture hall B44
Department of Economics, Vasagatan 1

Göteborg 2022

Abstracts

Article 1: When would private providers of public services voluntarily restrict profits?

This paper investigates incentives for private providers of public services to voluntarily restrict profits as a commitment to provide unobservable quality. My first finding suggests that making competition more intense (i.e., through subsidizing travel costs between providers) will not necessarily encourage all providers to restrict profits. Specifically, it is not good if competition is too intense. My second finding shows that setting lower taxes to providers who voluntarily restrict profits can make it more attractive to do so if the provider places a high enough intrinsic value on quality, but will make it less attractive if the providers have a lower value of quality. In fact, this lower tax rate may even lower investment in quality!

Keywords: Public Services, Competition, Nonprofits

JEL Classification: D43, H75, L32, L33

Article 2: Should private providers of public services be paid less?

Public services (e.g., healthcare and education) have multiple dimensions of quality. Some of these are observed by the users but not by the local government. By allowing user choice, providers can be induced to provide quality. Based on a model where all schools operate under a voucher system where the local government must finance public and private providers at an equal rate, the best result will always be obtained by having either only private or only public providers. However, this can change if the local government is allowed to shift funds from private to public providers. Under some conditions this will result in an outcome which is better than having only public or only private providers. This does however come with its own problems, since it will tend to disadvantage users of the private provider.

Keywords: Public Services, Quality, Competitive neutrality, Voucher markets

JEL Classification: D43, H75, L32, L33

Article 3: Does competition cause grade inflation in Swedish schools?

In this paper, I study the upper secondary education sector in Sweden 2012-2016 and use a spatial panel method to investigate whether competition among private and public schools is causing them to inflate their grades. The first result is that schools in high competition environments do not generally have higher grade inflation than schools in low competition environments. There is some indication that private schools in high competition environments may have higher grade inflation, but this result is not very robust. The second result is that a school inflating grades does not cause a grade inflation response in its competitors. The third result is that private schools may inflate grades more than public schools, which seems to be driven by schools that open or close during the period.

Keywords: Education, Grade inflation, Spatial Econometrics, Panel data

JEL Classification: C21, C23, C57, H57, I21

ISBN: 978-91-88199-59-1 (printed), 978-91-88199-60-7 (pdf)

Contact Information: Sebastian Larsson, Department of Economics, School of Business, Economics and Law, University of Gothenburg, 405 30 Gothenburg, Sweden. Email: Sebastian.Larsson@economics.gu.se