

standard job matching model. Qualitatively, their model matches several empirical regularities, in particular, an asymmetry between job creation and destruction. This results from the fact that firms can destroy jobs instantly, whereas it takes time for them to create jobs because of the need to search for workers. The authors also carry out some numerical simulations to show that the model performs well quantitatively. Gerard van den Berg and Geert Ridder estimate an equilibrium search model. They conclude that cross sectional data is insufficient to estimate the model and that worker and firm heterogeneity are important elements in building a model that will match the data. Maarten Lindeboom, Jan van Ours, and Gusta Renes use Dutch data to estimate matching functions for various worker and job types and find that holding all other characteristics constant, firms prefer employed to unemployed workers when making hiring decisions. Finally, Kenneth Burdett and Mervyn Coles study a search model in which firms endogenously choose the time path of wages assuming that firms cannot commit to wages in advance. They characterize a steady state equilibrium in which firms hire workers at high wages and then allow wages to decrease over time.

There are two additional papers in the volume. Joseph Altonji and Nicolas Williams study the relationship between wages, experience, tenure, and mobility. Hans van Ophem and Joop Hartog study a hedonic model in which workers with different characteristics are allocated to jobs with different wages and levels of job difficulty.

Because of the book's eclectic nature, it is probably true that anyone with an interest in models of the labor market and their empirical implementation will find something of interest in this volume. Unfortunately, what is here is not of uniformly high quality. As mentioned above, several of the papers on labor demand and adjustment costs have serious flaws in their empirical implementation. Additionally, there is no mention of recent work on aggregation in models with heterogeneous firms facing asymmetric and linear adjustment costs. As a result, potential readers may be seriously misled as to what constitutes frontier research in this area.

Several of the other contributions however, are nicely done and stimulating. In particular, the contributions on search, contracting, and wage-tenure profiles offer the reader an indication of some open and potentially fruitful avenues for future research. Nonetheless, the book offers little that is not already available in the literature, either in terms of substance or detail.

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#### K Law and Economics

*Suing for medical malpractice*. By FRANK A. SLOAN ET AL. Chicago and London: University of Chicago Press, 1993. Pp. xviii, 258. \$37.50. ISBN 0-226-76279-3. JEL 94-0812

Medical malpractice has been one of the focal points of the tort liability crisis of the mid 1980s and subsequent liability reform. From 1984 to 1986 medical malpractice premiums almost doubled in size. This increase generated substantial costs and controversy. For example, physicians complained that they were forced to switch their fields of specialization to avoid high litigation costs. In an effort to control these costs, 13 states enacted liability reforms from 1985-1987 to restrain medical malpractice damage amounts, and an even larger number of states enacted general liability reforms to limit damages.

The study by Frank Sloan et al. examines the performance of medical malpractice in one of these reform states, Florida.

The authors selected Florida as their case study because Florida requires that all closed medical malpractice claims be filed with the state and be made available to the public. The researchers were consequently able to identify the plaintiffs. The single state approach is also consistent with much of the medical malpractice literature, such as studies of New York and California. Florida

adopted limitations on the circumstances in which damages may be awarded in medical malpractice cases in 1985, and it imposed monetary caps on punitive damages and noneconomic damages for general liability in 1986. More generally, Florida has been prominent in medical malpractice reform discussions. This prominence is attributable in part to Florida's high claims frequency and premium levels.

Although the scope of this study is not as broad as some earlier assessments of medical malpractice, such as that of Danzon (1985), it nevertheless offers an advantage in that it explores in detail specific aspects of the litigation process. These findings should be generalizable to other states as well. This book will be a valuable addition to the medical malpractice literature.

To assess the performance of medical malpractice in Florida, Sloan et al. undertook an original survey in which they gathered information on 187 medical malpractice claims. Of the 187 claims they analyzed, which were closed over the 1986–1989 period, one-third pertained to emergency room cases and two-thirds to birth-related injuries.

Although this study utilizes a relatively small sample of claims, it investigates them in detail. The authors explore the nature of the litigation process associated with each claim, the level of compensation received, and the relationship of the compensation amount to the size of the economic loss.

They find that the injuries in their sample tend to be undercompensated, particularly those involving large losses. This finding parallels the results in Viscusi (1991) for product liability claims. There are a variety of reasons for this undercompensation, such as victims being willing to settle for less than the amount of the claim when there is some non-zero probability that they will lose if they go to court. Plaintiff risk aversion and the fact that not all claims may be warranted also enter as well. However, the result that overall there is undercompensation of economic damages is in striking contrast to the popular caricature of runaway malpractice awards. Whereas press accounts have highlighted verdicts such as the \$1 million award to a Philadelphia woman who claimed that a CAT scan

caused her to lose her psychic powers, the preponderance of medical malpractice claimants do not receive economic gains that can be regarded as a windfall.

Medical malpractice injuries often are quite serious. In the Florida sample, 35 percent of the birth cases involve fatalities and 43 percent of the emergency room cases did as well. Moreover, the authors find that the claims for damages are not simply an attempt to recoup damages from a convenient deep pocket. In a great majority of cases, the claims are legitimate, as the injuries can be traced to the doctor's negligence.

The results in this book likely to be of greatest interest to economists will be those pertaining to the dispute resolution process. Overall, 22 percent of the claims in the sample were dropped, and 55 percent were settled out of court. Moreover, the decisions at each stage of the litigation process were consistent with economic models in which the economic incentives of the parties drive litigation decisions. Their econometric analysis of litigation patterns also indicates that a particularly important determinant of outcomes was the liability rating provided by physician panels. This correlation as well as the absence of large award outliers in their sample led the authors to conclude that the crisis view of the medical malpractice system may have been overstated.

In terms of policy recommendations, the authors make much less sweeping calls for reform than other observers, such as Weiler (1991), who in effect advocates replacing medical malpractice by a workers' compensation-style system. Because the authors do not find that runaway awards and overcompensation are significant problems for their sample, they see no reason to implement damages caps. However, their sample is drawn from a period after damages limits were enacted in Florida, so that this reassuring result may be in part a reflection of the efficacy of reform rather than a signal that no reform is needed. In addition, because unreasonable jury awards tend to be very rare events, it may be that a sample of 187 cases is not sufficiently large to capture the role of the high payoff outliers that have been the target of reform efforts.

Nevertheless, the basic point of this book is certainly correct. The state of the medical malpractice system is certainly not as dire as some critics have suggested. A major reason for the reasonably sound functioning of medical malpractice is the role of economic behavior documented by Sloan et al. The parties to the litigation process act in a manner that is consistent with economic models of litigation behavior, and the juries appear to behave fairly sensibly as well.

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Suppose you were asked the following questions: 1) How often do hospitalizations result in an injury or illness due to negligence; 2) How dangerous is hospital treatment relative to, say, driving on the highway, or working on the job; 3) Who is most likely to suffer a negligent medical injury; 4) Is malpractice litigation excessive; 5) How much does a medically negligent injury cost; and 6) Does the current malpractice system create incentives for safer medical practice? My sense is that most people would think that negligent injuries are very rare, that low income patients are more likely to be injured, that too many suits are brought against doctors, that medical injuries are extremely expensive, and that malpractice risk has generated an excessive amount of defensive efforts on the part of physicians. Upon reading the results of this carefully done study of the malpractice environment in the State of New York, however, one is led, in quite convincing fashion, to question many of these conclusions.

The medical malpractice "crisis" of the late 1980s led the State of New York to commission a study of its malpractice system by the Harvard Malpractice Study Group. The results of that substantial undertaking, which are presented in this monograph, constitute one of the most comprehensive analyses of an existing system of safety regulation to date. The analysis is careful and thorough, the methods appropriate, and the conclusions and implications conservative and, I believe, correct.

Following two introductory chapters, Chapter 3 describes the data collection efforts. The aggregate statistics reveal that about one in 25 hospitalizations result in an injury, and about one in four of these in negligence. These injury rates are much higher than those observed on the job and on the road, which (the authors note) is not surprising, given the nature of medical practice. Patients are sick when they enter the hospital, and medical interventions are by nature highly risky.

One of the more interesting findings relates to the distribution of injuries according to injury severity. Most medical injuries are not particularly severe, resulting in at most a short term, temporary disability. This mirrors experience in the work place, where the majority of workers' compensation claims are for disabilities of very short duration.

In the following chapter, the frequency of litigation is explored in detail using two companion data sets. The construction of the matched data files on medical injuries and the associated litigation history is a major contribution. The surprising finding reported here is that, given a negligent injury, victims are very unlikely to sue. In fact, the authors find (subject to some qualifications) that only one out of every 50 negligently injured patients will bring suit! If anything, this would suggest that increased access to the malpractice system should be a focus of reform policy. There is, however, some justification for this low litigation rate.

Chapter 5 undertakes to explain the observation of the previous chapter by examining the distribution of the costs of injuries. Costs vary by severity with, for example, 66 percent of the costs incurred by the 18