

California’s for-profit hospitals offered notoriously expensive procedures as far back as the 1960’s to the 1990’s. In that era, California’s for-profit hospital market was filled with small for-profit hospitals. Such small practices delivered uncoordinated care, resulting in higher costs in their procedures, raising their prices. The Pioneer ACO Model was a policy created to reduce these high prices. The policy operates on the theory that larger for-profit hospitals could coordinate their care better than their smaller counterparts, leading to procedure cost reductions which are felt by the consumers in the form of lower procedure prices. By the end of the policy’s implementation in late 2016, Californian for-profit hospitals reached their largest size since the policy’s implementation in 2011. However, by 2016, procedure prices were at its highest since the policy’s implementation in 2011. Instead of leading to lower prices, the larger for-profit hospitals seemingly raised procedure prices. An explanation to the policy’s failure can be found in an older, similar trend in California, where larger for-profit hospitals did not lead to lower procedure prices but instead to higher prices. Melnick and Fonkych (2016) theorized that this was caused by an externality larger for-profit hospitals produce: higher bargaining power. The higher bargaining power was then used and abused by the for-profit hospitals to charge higher and higher procedure prices. As a policy evaluation, the thesis tries to apply Melnick and Fonkych’s theory on Covered California to understand why the Pioneer ACO Model failed to achieve its goal. As a narrative literature review, the thesis’ findings are based on a secondary research. The thesis’ findings support the hypothesis; the thesis finds a positive relationship between for-profit hospital size and procedure prices, meaning the larger the size of the for-profit hospital, the higher the procedure prices.

**Keywords:** Accountable Care Organization, ACO, Pioneer ACO Model, procedure prices, bargaining power, California.