

Equilibrium price dispersion in retail markets for prescription drugs

A homogeneous good is one that does not vary in quality, time, or space. In a perfectly competitive market with no information or transportation costs, all sellers would charge the same price. However, homogeneous goods are often sold at widely different prices by various firms. This study finds causes of price dispersion resulting from costly customer search by examining retail prices for prescription drugs, using cross-sectional patterns, since prices of prescription drugs significantly vary among pharmacies.

The findings report that as purchase frequency increases price dispersion decreases, supporting the hypothesis that repetitive purchasing leads to more experienced shoppers, more search, and price dispersion. If production costs for pharmacies vary, then the retail prices are expected to be more dispersed. In addition, Sorensen also uses a dummy variable to compare Newburgh and Middletown and finds that prices in one of the markets to be less dispersed. Finally, he provides some evidence that the class of drug has an effect on price dispersion