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Equilibrium price dispersion in retail markets for prescription drugs (Sorensen, 2000)

Although homogeneous goods are often sold at widely different prices by rival firm, this paper tries to show the price dispersion of drugs in each pharmacies in upstate New York and in the same small town with the predictions of models based on consumer search. From the data, the author set the dependent variable is the price range for prescription. The variable AWP is the drug's acquisition cost that based on its listed average wholesale price and it is included to control for the potential impact of price levels on dispersion. The variable BR1 and BR2 are dummies for two kinds of brand-name drugs. The variable NEWB is a dummy variable for Newburgh and the D variables are indicators for 20 categories of drug therapy. (Note : price distributions will be sensitive to different demographic groups' differing propensities to search the drugs in each pharmacies. The result of regression is the estimated coefficient on the purchase frequency variable is negative and statistically significant. Moreover, the price range of a drug that must be purchased monthly will be 28 percent smaller than if it were a one-time therapy. The estimated coefficients on the brand dummies are not statically significant. Therefore, price distributions are related to consumer search suggests that the absence of such advertising may result in higher prices and more price dispersion than would otherwise prevail.