Sorensen paper summary for EE489 class discussion no.2

Equilibrium price dispersion in retail markets for prescription drugs

- Homogeneous goods are never sold at the same price. The paper aimed to observe the price dispersion of the prescription medication marketThe findings suggested that the price dispersion incurred not from difference in characteristics of the goods, not the service of the pharmacy as other similar papers may suggest but rather the searching cost incurred to the consumers themselves. The price dispersion rise mostly in one time consuming medication and not repeated purchase
- The more the consumers search and purchase, the price and the mark ups will go down as well as the dispersion of price, but a one time prescription will have the highest dispersion as less information is gain as well as the mark ups so amount of dispersion is high

Collection: copied from the posted paper by the regulation of the top selling products of the pharmacies in middletown and newburgh

Summary of price dispersion: mostly compare the cash paying consumers, quite dispersed in price with no correlation among the type of drugs so can not conclude that service is better.

Repeat Purchasing and observed price distributions

- Frequently purchased prescription(strongest price shop incentive) should have least markups and dispersion
- If consume more than 2 months=frequent purchase but if less than 2 months=one time

A.) dispersion

$$\mathrm{RANGE}_{ij} = \beta_0 + \beta_1 \mathrm{PFREQ}_i + \beta_2 \mathrm{AWP}_i + \beta_3 \mathrm{BR1}_i + \beta_4 \mathrm{BR2}_i + \beta_5 \mathrm{NEWB}_i + \sum_{k=6}^{25} \beta_k D_{ik} + \epsilon_{ij}. \quad (1)$$

The range of dispersion correlates and the results shows the strongest result on the reduction of rice range and the prescription frequency with robust evidence

B.) dispersion after correction for pharmacy effects: the results still shows the same correlation but with less magnitude but the product heterogeneity is taken away

C.) margins: expected to be negatively correlated with purchasing frequency as well

alternative explanation

A.) Product heterogeneity: price pattern is not consistent with the product differentiation

B.) cost heterogeneity: the differences in the acquisition cost of the drugs by the pharmacy is too small

Conclusion: the actual result of the research goes as the hypothesis predicted as the more frequency and search cost the consumer put in, the price dispersion and mark ups decrease