

Equilibrium Price Dispersion in Retail Markets for Prescription Drugs

As we know, in reality “Law of one price” does not work. The important reasons are there are more costs such as transportation cost. Even in homogeneous products and the nearest location, the prices are not equal. This study wants to find the equilibrium price distribution which is based on consumer search cost. So, the dependent variable of the regression will be price range while the variables are purchase frequency, acquisition cost. There are dummy variables which are the drugs that have generic drugs and do not have. And the last dummy variable is Newburgh. From the regression, he found that there was only one variable that is significant. The others were not significant. It means that there were incentives to price-shop for prescriptions that must be purchased frequently. Moreover, consumers who had to purchase drugs repeatedly will pay a lower price than one-time prescriptions. Absolute markups for one-time customers are estimated to be 41 percent higher than repeated purchase customers. There were one-third in effect of price dispersion for difference in each pharmacy. Even if they included or did not include the different pharmacies effect, the outcome was the same which is there was negative relationship between price dispersion and purchase frequency which mean that if there are more frequency purchases, the price for prescriptions will be lower.