

Equilibrium Price Dispersion in Retail Markets for Prescription Drugs

This paper, written by Alan T. Sorensen, attempts to create empirical importance of price dispersion according to costly consumer search using analysis of retail prices for prescription drugs. Within the same pharmaceutical market, both of posted prices in two different geographical markets are shown to vary considerably across pharmacies. The empirical analysis is based on the observation that the consumer's motivation for the price depends on the nature of the drug treatment. The author indicated the fact that The distribution of cash prices for prescription drugs is significant even in pharmacies in small local markets which implies that the distribution occurs at least in part from the nature of the consumer search environment. The empirical regression fit for predictions of models from consumer searches very well. Another important question which also was mentioned in the article is that the observed price distribution comes from a variety of pharmacies. Sorensen illustrated that although pharmacies vary by about a third of the price change, the price model does not correspond to the story of different products. This study indicates the absence of such advertisements might result in higher prices and more distribution than others as well.

$$\text{RANGE}_{it} = \beta_0 + \beta_1 \text{PFREQ}_{it} + \beta_2 \text{AWP}_i + \beta_3 \text{BR1}_i + \beta_4 \text{BR2}_i \\ + \beta_5 \text{NEWB}_i + \sum_{k=0}^{23} \beta_k D_{ik} + \epsilon_{it}.$$

According to the simple regression, the price range for the prescription is the dependent variable. The variable AWP, as the drug's acquisition cost, is included to control the potential effect on dispersion from price levels. Dummies for two kinds of brand-name drugs in this equation are termed as BR1 and BR2. NEWB is a dummy variable for Newburgh, and the D variables are indicators for 20 types of drug therapy. As the author expected, the estimated coefficient indicates that the price range of the monthly purchase medication is less than 28 percent if it is a one-time drug. This article shows that the negative relationship between price distribution and frequency of purchase is consistent in both measures and shows that the purchased medicine has a lesser distribution per month than relatives. 20 Compared to a single purchase, Dummies also imply that the price is cheaper for generics than brand-name drugs. In addition, forecasts also indicate that prices will spread in Newburgh less than in Middletown.