

**Sorensen (2000)**

In this study, Sorensen sought to prove that consumers' increased propensities to price for repeatedly purchased prescriptions, will constrain and lower the prices, and to demonstrating the importance of price dispersion from imperfect information cause by costly consumer search.

After he gathered information from 20 pharmacies located in Middletown and Newburg, New York state, 1998, he grouped them up, into frequency based on price orderings across stores in each city. He then found out the dispersion by ran a simple regression in order to estimate the dispersion using the equation  $RANGE_{ij} = b_0 + b_1 PFREQ + b_2 AWP_i + b_3 BR_{i1} + b_4 BR_{i2} + b_5 NEWB_i + \sum_{k=6}^{25} b_k D_{ik} + e_{ij}$ . From the result, it shows that the purchase frequency variable is negative and statistically significant. The estimate indicates that the price range of a drug that must be purchased monthly will be 28% smaller than a one-time purchase, the expected benefits of search are highest for prescriptions when being purchased frequently, as its less dispersed, lowering equilibrium prices for consumers in response to increased propensities to price-shop. The coefficients on dummies also suggest that price are more dispersed for generics branded drugs.

He also used  $R^2$  data from the regression to explain the heterogeneity of pharmacy which resulted as the pharmacy affects around one-third of the price variation.

The paper finally concluded that based on consumer search, the frequency of purchase, lack of information and the stores heterogeneity have statistically relationship with dispersion and price, as the imperfect information and heterogeneity increase the price dispersion, creating higher prices for consumers. He presented that this problem could be resolve by prohibiting advertisement from the pharmacies.