Sirada Eamsupa
5904640843

Equilibrium price dispersion in retail market for prescription drug

This paper named “Equilibrium price dispersion in retail market for prescription drugs” has the main purpose to studying the importance of the prices for dispersion according to costly consumer search by examining retail price for prescription drug. From the research, the pharmacy heterogeneity account for at most a third of the observed price dispersion. Moreover, there is an analysis of the consumer behavior and incentive toward price-shop depends on characteristic of the drug therapy. In the context of the paper, it describes the method that they use for the experiments and also the effects that incurred of those experiments. In conclusion, the dispersion in cash prices for prescription drugs is substantial it also has the evidence that support this hypothesis, suggest that dispersion arises at least in part from the nature of the consumer search environment. Lastly, this finding about price distributions are related to consumer search suggests that the absence of such advertising may result in higher price and more price dispersion than would otherwise prevail.

Equation explanation

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

According to the equation above, the price range across pharmacies in town j (RANGEij) is the dependent variable. PFREQ is a variable which stands for purchase frequency. AWP is the average wholesale price which was included to control for the impact of price levels on dispersion. The terms BR1 and BR2 are dummies variable for two kinds of brand-name drugs those that face competition from generic equivalents and those that do not. NEWB is a dummy variable for Newburgh and D is the indicator for 20 categories of drug therapy.

The column 1 of table 2 in the paper report the regression result which was estimated by using the GLS. The result shows that the price range of the the drugs that must be purchased monthly will be smaller than the one-time purchased. The column 2 of table 2 shows the coefficient from a regression on the standard deviation which the monthly purchases drugs are 20 percent less relative dispersion than the one-time purchases. The coefficients on the brand dummies also pointed out that prices are more dispersed for generics than the branded drugs. Moreover, from the estimation the price is less dispersed in Newburgh than the city of Middletown even though both cities shared similar characteristics.