

Sorensen (2000) - Equilibrium price dispersion in retail markets for prescription drugs.

This paper tries to show the effect of imperfect information in price dispersion through retail market for prescription drugs. By data collected, it shows no difference in pharmacy service or location to describe the observed price variation. The main finding is that observed price distributions are consistent with the predictions of models based on consumer research, so, the increasing in consumers' propensities to price-shop for frequently purchased prescriptions could be lead to low in a price prescription as well as a price dispersion. This paper works by using an observation data from visiting the pharmacies as well as brief conversations with the pharmacists themselves in the cities of Middletown and Newburgh. The data on drug characteristics were collected from Mosby's GenRX (a large pharmaceutical reference manual).

They use this following sample regression:

$$\text{RANGE}_{ij} = \beta_0 + \beta_1 \text{PFREQ}_i + \beta_2 \text{AWP}_i + \beta_3 \text{BR1}_i + \beta_4 \text{BR2}_i + \beta_5 \text{NEWB}_i + \sum_{k=6}^{25} \beta_k \text{D}_{ik} + \epsilon_{ij}$$

The dependent variable is the price range for the prescription. The purchased frequency and wholesale cost are involved in consideration of the impact of price level on dispersion. There are 3 dummy variables as the branded with and without generic competition (BR1, BR2) and Newburgh (NEWB) with D, the 20 different categories for drug therapy. They found that the dispersion in prescription price can be explained by costly consumer search and examine the other important price variation, pharmacy heterogeneity and cost heterogeneity. After all, the fact can explain that dispersion in cash prices for prescription drugs is substantial and price patterns are not consistent with a strict differentiated products story.