Sorensen 2000 summary

This study seeks to establish the occurrence of price dispersion which happens when homogeneous goods are sold at wildly different prices by rival firms. Price dispersion will arise when consumers have to bear search cost to obtain price information. This paper tries to explain this phenomenon by examining the retail market for prescription drugs. According to data collected from individual pharmacies in upstate New York, it suggests that cash price for equivalent prescriptions differ within the same area. However, the difference does not occur because of the pharmacy service characteristics but they are consistent with the cost of searching. From the data, it can prove that the prediction of the less absolute dispersion and lower markups for such prescription happen when consumers increased propensities to price-shop for frequently purchased. Precisely, the dispersion in premiums can be explained by costly consumer search. Thus, the premiums are least dispersed in driver classes.

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

To prove that the absolute dispersion of description prices decrease with purchase frequency, we can also use the regression model to explain. This model demonstrates which factors affect the price range of pharmacies in town. From the regression result, it shows that repeated purchased maintenance drugs have tighter price distribution than one-time prescriptions. Also, prices are least dispersed for prescriptions used to treat infections and diabetes.