

Sorensen (2000)

This paper studies what factors are the cause of price dispersion in prescription market that arises from imperfect information by examine the retail market for prescription drugs. This paper they collect the data from pharmacies in two difference cities which are Newburgh and Middletown, because both cities has difference geography and there are several pharmacies.

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

Dependent variable is price range of prescription, PFREQ is purchasing frequency which have a negative effect to price dispersion. AWP is drug cost based on average wholesale price and included to control for the potential impact of price levels on dispersion, BR1 and BR2 are dummies variables that represent for two kind of brand-name drugs which face competition from equivalents and those that do not, NEWB is a dummy that pharmacy is in Newburgh, and the D variable stand for indicators for 20 categories of drug therapy.

Generics types is more dispersion than Branded drugs