

### Equilibrium Price Dispersion in Retail Markets for Prescription Drugs

This study explains the empirical importance of price dispersion caused by imperfect information by inspecting retail prices for prescription drugs. It shows that prices for equivalent prescriptions differ substantially across pharmacies within the small local markets. If dispersion is generated by imperfect price information, centralization of price information by programs or policies will result in lower prices for consumers. For instance, price advertising could result in failing to pay a higher price. However, price advertising by pharmacies is often prohibited by law.

This simple regression describe the relationship between absolute dispersion and other factors(variables)

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

- **RANGE<sub>ij</sub>** is the price range across pharmacies in town j for the prescription.
- **AWP** is the drug's acquisition cost (based on its listed average wholesale price) and is included to control for the potential impact of price levels on dispersion
- **BR1** and **BR2** are dummies for two kinds of brand-name drugs: those that face competition from generic equivalents and those that do not. This may be reflected in the distribution of prices as it shows insensitivity of consumers.
- **NEWB** is a dummy variable for Newburgh
- **D** variables are indicators for 20 categories of drug therapy. They are included as crude controls for the composition of the drug's users; price distributions will be sensitive to different demographic groups' differing propensities to search.