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Tiered co-payments, pricing, and demand in reference price markets for pharmaceuticals

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Abstract

Health insurance companies curb price-insensitive behavior and the moral hazard of insureds by means of cost-sharing, such as tiered co-payments or reference pricing in drug markets. This paper evaluates the effect of price limits below which drugs are exempt from co-payments on prices and on demand. First, using a difference-in-differences estimation strategy, we find that the new policy decreases prices by 5 percent for generics and increases prices by 4 percent for brand-name drugs in the German reference price market. Second, estimating a nested-logit demand model, we show that consumers appreciate co-payment exempt drugs and calculate lower price elasticities for brand-name drugs than for generics. This explains the different price responses of brand-name and generic drugs and shows that price-related co-payment tiers are an effective tool to steer demand to low-priced drugs.

Keywords: Drug prices; Cost-sharing; Co-payments; Reference pricing; Regulation; Firm behavior; Health Insurance; Demand model; Price elasticity

\textit{JEL}: I18, L51, I11, L11

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