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International effects of national regulations: external reference pricing and price controls*

Difei Geng[†] and Kamal Saggi[‡]

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Abstract

Under external reference pricing (ERP) the price that a government permits a firm to charge in its market depends upon the firm's prices in other countries. In a two-country (home and foreign) model where demand is asymmetric across countries, we show that home's unilaterally optimal ERP policy permits the home firm to engage in a threshold level of international price discrimination above which it is (just) willing to export. If the firm faces a price control abroad or bargains over price with the foreign government, an ERP policy can even yield higher home welfare than a direct price control.

Keywords: External reference pricing policies, price controls, patented products, welfare. *JEL Classifications:* F10, F12, D42, L51.

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