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DIRECT TO CONSUMER ADVERTISING AND PRESCRIPTION CHOICE

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This paper examines the effect of direct-to-consumer advertising (DTCA) of prescription drugs on doctors' choice of drug brands. Using antihistamines as an example, we show that DTCA has little effect on the choice of brand despite the massive DTCA expenditure incurred in this class. In contrast, promotional activities directed toward physicians have larger and longer lasting effects. These results, together with the market-expanding results shown in Iizuka and Jin (2005), suggest that DTCA is effective in increasing the aggregate demand per therapeutic class but does not affect doctor choice of prescription within a class. Therefore, DTCA may be viewed as a public good for all drugs in the same class.

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VERTICAL INTEGRATION AND SHARED FACILITIES IN UNREGULATED INDUSTRIES

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In this paper we analyze the equilibrium market structure, following liberalization, of an industry involving an essential facility. Two alternative modes of market entry are considered, in conjunction with vertical integration, namely: (i) full entry, which means building a new and more efficient facility at a positive fixed cost; and (ii) partial entry, which means purchasing existing capacity from the incumbent, at a fixed price per unit that is freely negotiated between the incumbent and the entrant. We show that vertical integration is a dominant strategy for each firm under either entry mode, and that upstream firms choose to share the incumbent's facility when the entrant's fixed cost exceeds a positive threshold. In addition, welfare analysis shows that in many situations the market can efficiently solve the trade-off between fixed-cost savings and softened downstream competition, thus providing a rationale for the liberalization of such industries. Several competition policy implications are discussed.

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PATENT LENGTH AND THE TIMING OF INNOVATIVE ACTIVITY

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The standard result in patent policy, as demonstrated by Gilbert and Shapiro (1990), is that infinitely lived but very narrow patents are optimal as deadweight losses are minimised and spread through time but inventors can still recover their R&D expenditures. By extending their innovative environment to include timing as an important choice, we demonstrate that a finitely lived, but broader, patent can be socially desirable. This is because a patent breadth is a better instrument than length to encourage socially optimal timing. Thus, patents need not be infinitely long in order to encourage a greater number of inventions

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