

“Competition or Collusion? Entry Decisions in the Swedish Pharmaceutical Market”

joint work with Le Hung (Aalto University and Helsinki GSE)

Abstract:

Observing different firms having a monopoly position in parts of a market may be the result of either intense post-entry competition and non-cooperative entry decisions, or collusive entry. This phenomenon and large price differences per pill are wide-spread in the Swedish pharmaceutical market where monthly auctions for each active ingredient--dosage form--strength--package size combination channel a large part of demand to the winner. 22% of the markets are potentially collusive at least some of the time and prices in such markets are significantly higher per pill. We take a structural model tailored to the Swedish circumstances to data on two markets. In one market, the entry patterns (monopoly package sizes) are suggestive of collusion, but not in the other. Our counterfactual analyses where we either remove monopoly package sizes or allow substitution across package sizes yield savings of 50-60% in both markets, with very small if any effects on demand.