

Summary of Dunn, Liebman, Fernando

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Broad Question:

Broadly speaking, this paper seeks to understand how price increases of drugs resulting from R&D corresponds to consumer welfare. Basically, does consumer welfare increase despite the price increases, or does the innovation in the drug not necessitate the price increase?

Specific Question:

Specifically, the authors primarily look into rheumatoid arthritic and ulcerative colitis drugs, and seek to ascertain how the innovations in these drugs have impacted consumer welfare. They examine other disease therapies, but the primary study focuses on the two mentioned. They create models of consumer welfare and price index, and are able to uncover the relationship between drug innovation and consumer welfare.

Policy Maker's Interest:

A policy maker would have many reasons to be interested in a project like this. Firstly, they would have tangible evidence of pricing effects, thus influencing any sort of price floor or ceiling policy. Then, there is the idea of federal research funding for pharmaceuticals. This sort of study and model would allow for a quantifiable measure of when a drug/therapy is worth investing in as the government versus which may be less able to quickly improve consumer welfare.

Economist's Interest:

An economist would be interested for the novel addition of innovation, as well as the clever data sources used. Further, an economist should always be interested in consumer welfare in an industry such as health, allowing for extension into willingness to pay and other sorts of demand estimation.

What We Learn About Economics:

We learn many things from this paper. Firstly, we learn that there is not a monotonic relationship between drug innovation and consumer welfare. While some drugs can see consumer welfare increase despite prices increasing as well, others see decreases in consumer welfare, suggesting that the efficacy of the innovation is not worth the price increase. Further, we learn new ways to model medical innovations, a useful tool for health economists.