Drug Companies and Patents: The Games they Play

**Due via NetTutor (**<http://www.nettutor.com/worth/econ/wsu>) **by Friday, March 27 by 11:00 pm (PST)**

In Module 24, Krugman and Wells, discuss patents and how they create a barrier to entry (see pp. 264-265). A way drug companies can generate a barrier to entry is to adopt “pay-for-delay” tactics.

In the context of generic pharmaceuticals, a US Supreme Court case was brought by the US Federal Trade Commission to halt the “pay-for-delay” tactics used by pharmaceutical companies to contractually extend the effective patent period of pharmaceutical drugs. This case is more fully described in “*Pay-for-Delay: How Drug Company Pay-Offs Cost Consumers Billions*.” Staff Study, January 2010. (<http://www.ftc.gov/os/2010/01/100112payfordelayrpt.pdf> )

Edward Wyatt also discusses the issue in his article “*Supreme Court Lets Regulators Sue Over Generic Drug Deals.*” New York Times, June 17, 2013. (<http://www.nytimes.com/2013/06/18/business/supreme-court-says-drug-makers-can-be-sued-over-pay-for-delay-deals.html?_r=0>)

After reading these articles:

1. Explain how a patent creates a kind of monopoly and what benefits a patent conveys to the owner.
2. Explain what happens in a market when patent protection for a technology runs out.
3. Explain the effects of pay-for-delay actions on producers and consumers.
4. Discuss whether pay-for-delay tactics should no longer be allowed, or should continue. Be sure to support your conclusion using economic arguments.

**Grading Rubric**

Your essay must not exceed two double-spaced and 12-point-font pages. **Please include your name, instructor’s name (Dr. Prera), course and section number (i.e. EconS 101.01** [MWF *9:10-10 am*] **or 101.03** [TTh *10:35-11:50 am*]**), and writing assignment (Assignment 3) on the top of your assignment.**

Your essay will be assessed as either “Meets Expectations” or “Needs Improvement.” If your essay meets expectations in both areas, your score will be 100%. A score of *meets expectations* in **Economic analysis** alone will result in a score of 50%. *Needs improvement* in both areas will result in a score of 0%. If your essay needs improvement, you will be given feedback from NetTutor to help you revise it. You can then re-submit the essay to NetTutor for another try, but you only get one second chance. If you take materials or quotes from sources, you must provide citations/references in a standard citation/reference format.

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| **Criteria** | **Needs Improvement** | **Meets Expectations** |
| **Writing** | The writing is difficult to follow and/or poorly organized. Transition sentences are absent or ineffective.  Typos and/or grammatical errors distract the reader.  Source material citations/ references needed, but are missing or incorrect. | Ideas are well-organized. Transition sentences effectively connect one idea to the next.  The essay is free of typos and grammatical errors.  Sources properly cited and referenced. |
| **Economic analysis** | Explanation of how a patent is a monopoly does not include benefits to the producer (patent holder) or impact on consumers, or is economically incorrect.  Explanation of what happens in the market to both producers and consumers when a patent runs out is economically incorrect, incoherent, or missing.  Reasoning for support or rejection of pay-for-delay tactics is not supported by economic reasoning. | Explanation of how a patent is a monopoly includes benefits to the producer (patent holder) and impact on consumers and is economically correct.  Explanation of what happens in the market to both producers and consumers when a patent runs out is economically correct and coherent and how pay-for-delay tactics extend patent protect.  Reasoning for support or rejection of pay-for-delay tactics is well supported by economic reasoning. |