

Sleeping with the Enemy:
Inter-firm product
combinations in the
pharmaceutical industry

Discussant:
Wei Tan
SUNY Stony Brook

Summary

- Study the pricing strategy when firms use inter-firm product combination.
- Estimate the demand system at the regimen level and recover the cost parameters from the Nash equilibrium conditions
- Perform counterfactuals to evaluate the impacts of product bundling

Demand Estimation

- IV logit demand function

$$\ln s_{jt} - \ln s_{0t} = -\alpha p_{jt} + \beta x_j + \xi_t + \Delta\xi_{jt}$$

- The estimates of demand elasticity are completely driven by the market share of regimen
- Could use BLP method to add additional consumer characteristics and allow random coefficients.
- Additional robustness check
 - Use data from later periods
- Provide estimate of $\delta_j = \beta x_j + \xi_t + \Delta\xi_{jt}$

Additional comments

- Do the simulation results hold for more general demand functions?
- The role of advertising when you have product bundling
 - Direct to consumer advertising

Entry and bundling

- The bundling decisions are made by the entrant not by the incumbent firm
- Why do an entrant choose to bundle with some incumbent firms but not the other incumbent firms?
- What is the impact of bundling on the incumbent firm's pricing decision?
- Entry accommodation or entry deterrence?