Discussion of Sinkinson & Starc
“Consumer Advertising Competition in Prescription Drugs”

By Ginger Z. Jin
University of Maryland & NBER

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This paper

• Research Question
  – What’s the effect of DTCATV on the demand of self and competing products?
  – How do firms choose DTCATV strategically in a dynamic setting?
  – What if we ban DTCATV or allow firms to collude in DTCATV?

• Contribution
  – Local political ads displace local drug ads on TV and therefore serve as IV for DTCATV ➔ help identify causal effect of DTCATV
  – A structural model of strategic and dynamic advertising decisions

• Findings:
  – DTCATV has business stealing effect on brand-name drugs, but market expanding effect on non-advertising generics
Demand estimation (static)

- Dep. Var = monthly revenue
  - Why not quantity?

- IV validity
  - Correlated with DTCATV
  - Orthogonal to the error term

- Comment on IV:
  - Political ads are not drug-specific
  - Actual IV = political ads * drop of Lipitor ads with Dr. Jarvik in April-September 2008
    - Drop of Lipitor ads is part of DTCATV, and could affect demand of all statins directly
  - What if using the same firm’s DTCATV in other drug classes?
Heterogeneous effect of DTCATV

• Shows that the effect of DTCATV differ for brand-name and generic drugs

• Does the effect of DTCATV differ by drug age?
  – Is the business stealing effect smaller over time?
  – Does the advertising effect vary by the attributes of competing drugs?
  – Does the market expansion effect apply to brand-name non-advertising drugs?
  – Does the effect of DTCATV depend on the intensity of direct-to-doctor advertising?
Structural model of DTCA decisions

• Every firm makes a monthly decision of DTCA with market shares as the state variable

• Why do we need a dynamic model of DTCA?
  – Drug age and patent status
  – Consumers may be reluctant to switch RXs
    • New patients, stayers, switchers, quitters
  – Today’s ads may affect future demand via depreciation
  – Learning about rivals’ DTCA
  – Learning about the effect of DTCA
  – Coordinate with pricing and direct-to-doctor advertising
Identification issues in the dynamic model

• How to identify the transition matrix without knowing who (or how many) start, stay, switch, or quit statins?

• The DTCA and revenue data are from 7/2007 to 11/2008. This only applies to a small time window in a drug’s whole patent life. How to capture the advertising effects over time?

• Assumptions on firms’ objective, policy variables, and information structure
Questions on a larger picture

• Informative or persuasive advertising?
• Business stealing advertising does not necessarily reduce consumer welfare
  – Switches may lead to better drug-patient match
• Advertising contents
  – A statin ad rather than Lipitor ad?
• Other firm decisions – pricing, me-too drugs, direct-to-doctor advertising
In summary

• Interesting read
• Refinement of IV
• A better connection between static demand estimation and dynamic supply decisions
• Be careful in welfare analysis