On International Cost-Sharing of International R&D

X. Martinez-Giralt & P. Pita Barros

Discussion for the IDEI-TSE conference

The model in a nutshell

- I countries in which consumers have a well-known demand for the pharmaceutical product.
- In each country, there is a system of coinsurance such that the representative consumer only bears part of the final price.
- The pharaceutical company' s production cost includes a fixed cost, on top of a constant marginal cost.
- The prices in all the countries are set by a supranational entity.

Main Topic: how to allocate the company's fixed cost among the different countries when both the elasticity of demand and the coinsurance system differ?

Main Results

- **Result 1**: the optimal Ramsey price should take into account the "moral hazard" effect implied by the coinsurance scheme which leads to higher prices than in the standard third-degree discrimination problem.

- **Result 2**: If one country (say 1) increases its coverage rates, it decreases the price in the other countries but the own price effect is ambiguous. In any case, the contribution of country 1 to the fixed cost will increase.

Questions

1. Why do we insure when there us no risk aversion (and in fact no risk)?
2. Is it really moral hazard problem (no observability problem)?
3. Can we say something on the optimal co-insurance rates?
4. If governments do not behave cooperatively, is it still true that there is no incentives to us strategically insurance copayment?