The School of Public Policy Economics Program

External reference pricing policies, price controls and international patent protection

Dr. Kamal Saggi

Vanderbilt University

Abstract

This paper analyzes the economics of external reference pricing (ERP), a policy under which the price a firm is allowed to charge in one country depends upon its prices in other countries. We consider a world with two countries (home and foreign) where a single home firm sells a patented product, potentially in both markets. The home market has more consumers and a greater willingness to pay for the firm's product. Formulating home's ERP policy as the degree to which the firm can price discriminate in favor of foreign consumers, we show that home's optimal policy is to permit a level of international price discrimination at which the firm is just willing to export. If the foreign market becomes relatively less lucrative for the firm (say due to demand considerations or an increase in trade barriers), home is willing to allow

TUESDAY
MARCH 31ST
4:00 - 5:30P
BEXELL 416

Free and open
to the Public

Oregon State UNIVERSITY

http://liberalarts.oregonstate.edu/spp/