

Can Amazon Pharmacy Reduce Drug Prices?

Evidence from Medicare Part D

Giovanna Ariel Ventre

Thesis Supervisor: Professor Francesco Decarolis

Abstract

The purpose of this work is to provide a first empirical assessment of Amazon Pharmacy's impact on price competition within the pharmaceutical market. This study specifically investigates whether Amazon Pharmacy's direct-to-consumer model, designed to address information asymmetry and price inefficiencies, can effectively reduce prescription drug expenses under the Medicare Part D program. To do so, a non-standard difference-in-difference design is developed following the Empirical Industrial Organisation literature. The setting proposed is the US prescription drug market and this work studies the role of Amazon Pharmacy's discounts in reducing prices set by private insurers under Medicare Part D. The results show a significant and increasing reduction in branded drug prices where Amazon Pharmacy offers substantial discounts compared to countries where this service remains unavailable. Lastly, a back-of-the-envelope calculation illustrates the potential savings for a representative consumer when using the Amazon Pharmacy program. These findings show the potential effectiveness of strategic incentives and transparency measures in addressing persistent market failures in the traditional pharmacy model and promoting competition within privately administered public programs.