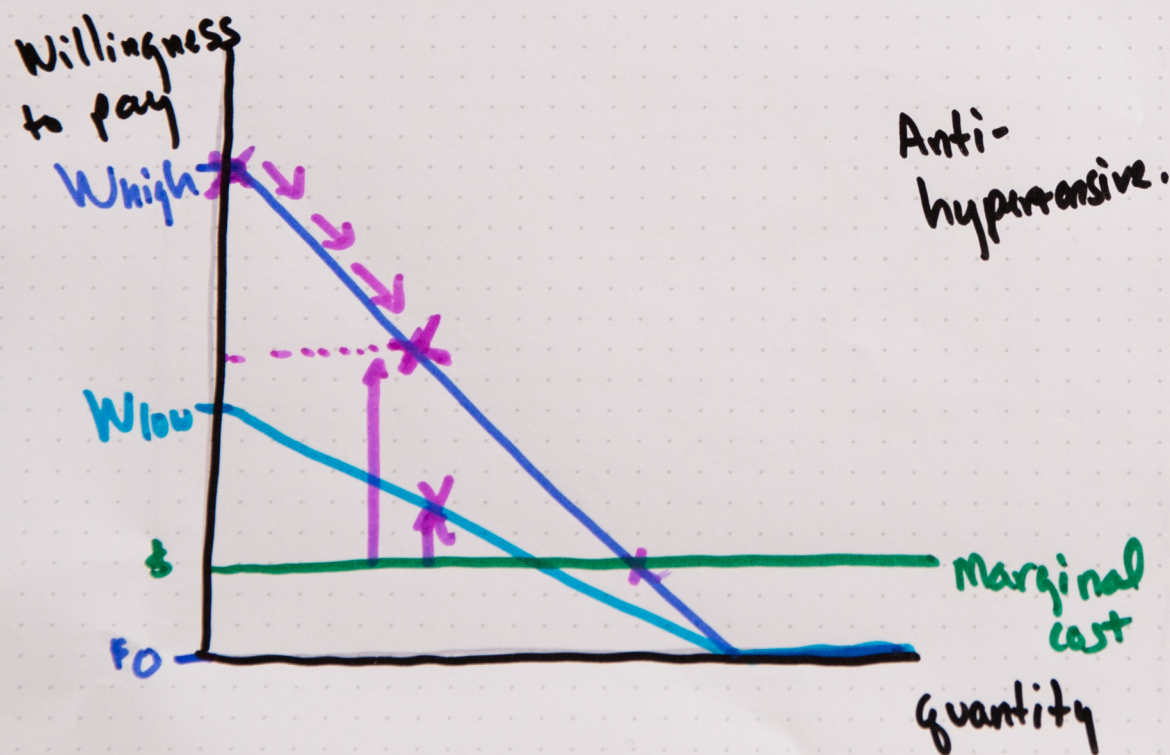
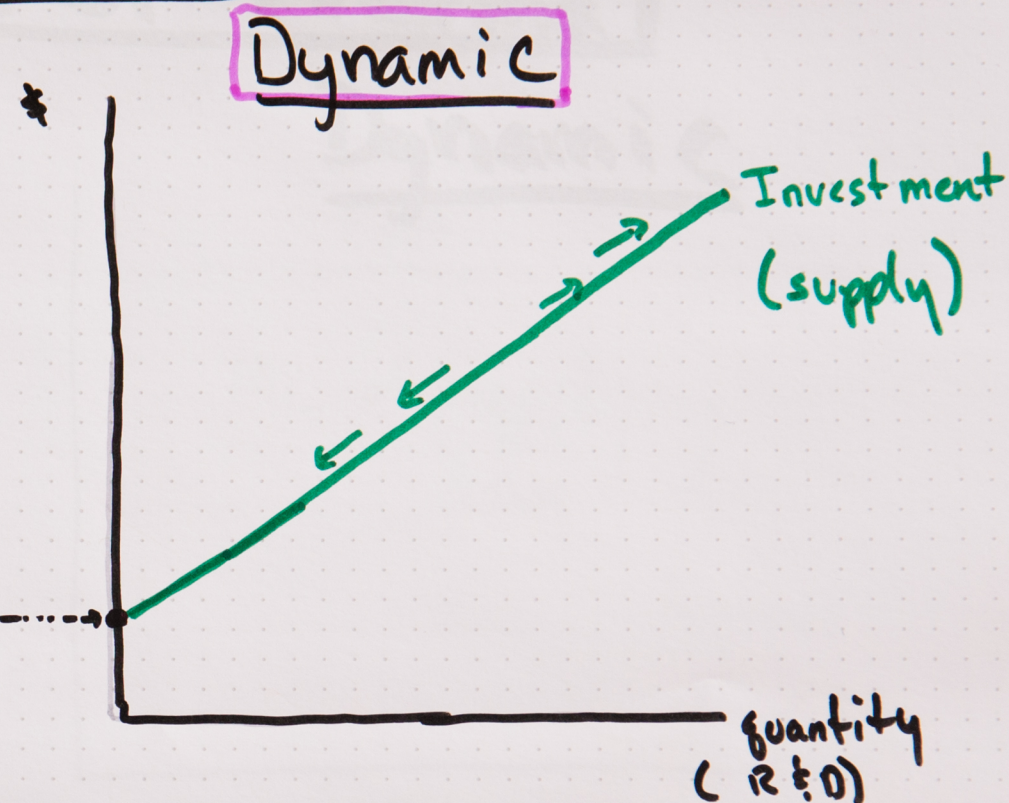
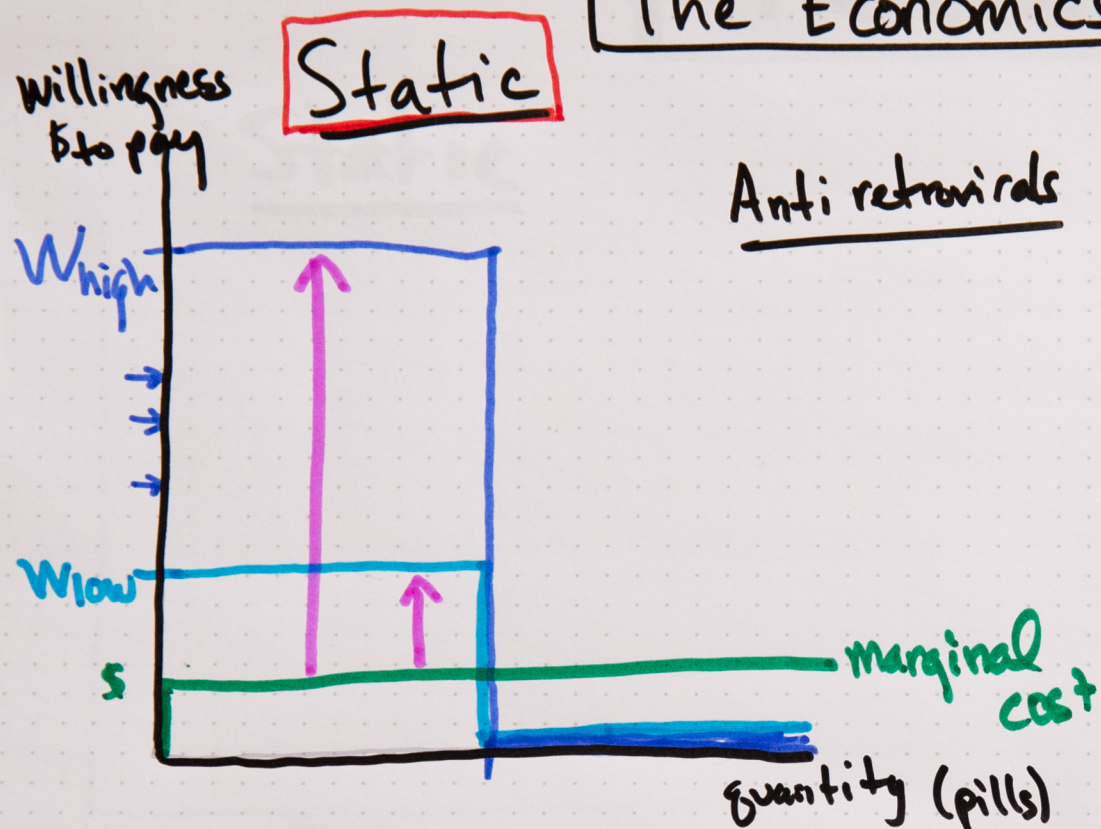


# The Economics of Pharma



## 2 Types of drug costs

- 1) Fixed costs - R&D, testing. \$2 Bn.
- 2) Variable/marginal costs - \$.20/pill.

## Profits of Pharma Co

$$\pi = (P - mc) \cdot Q - F$$

$\uparrow$  profit       $\uparrow$  price       $\uparrow$  marginal cost       $\uparrow$  R&D

$\leftarrow$  pills       $> 0 \uparrow$        $< 0 \downarrow$