

MICROECONOMICS AT WORK EXERCISE

INFLUENCES ON PRICE

REFERENCE: Naomi Koppel, 'WTO gives cheap drugs to poor', *The Australian Financial Review*, 1 September 2003, p. 10.

CHAPTER RELEVANT TO THIS EXERCISE: Chapter 3.

OVERVIEW

The price of drugs to treat diseases is set by large pharmaceutical companies. Frequently these companies have spent large amounts of money to develop these drugs (on which they have a monopoly) and the price they set for the product reflects this 'development' cost. Their monopoly may, however, be quickly eroded if the drugs are 'copied' (i.e. the pharmaceutical composition of these drugs is frequently able to be fairly readily duplicated). Such copies are sold at the same or, more often, a lower price than that set by the drug companies because the cost of producing copies does not cover the costs of research and development incurred by the drug companies. It is generally the case, however, that patents protect the 'intellectual property' of the drug companies which gives them the monopoly. Members of the World Trade Organisation (WTO) are bound by a principle of the body that prohibits trade in such copies, although the WTO has recently relented on this policy in some instances.

QUESTIONS

1. Why does the price of patented drugs generally exceed the price at which copies of the drugs can be produced and sold at a profit?
2. Under what circumstances can 'copies' of these drugs be made by 'generic manufacturers'?
3. What is the nature and significance of the WTO decision with respect to trade in copies of drugs?
4. How might this policy affect the development of new drugs to treat diseases such as HIV/AIDS?
5. Why was the United States reluctant to accept a change in WTO policy in this regard?
6. Why were copies sold in foreign countries required to be supplied in 'special packaging' or 'different colours'?