As American healthcare expenditures continue to climb, calls for greater healthcare transparency

among politicians, bus iness -leaders , and patients are incr eas ing. T his effect has

within healthcare markets imply that ex-ante price disclosures may not be directly relevant to consumers. Many empirical studies of consumer-directed transparency initiatives have reported little to no effect on
healthcare prices (Muir 2012 and referenced studies). Therefore, the assumption that a greater level of
information availability will unambiguously drive down prices requires examination. Asymmetrical information is most commonly found in markets that satisfy three conditions: there is
a risk, there is a contract that implicitly or explicitly transfers this risk from one agent to another, and parties
to the contract have different information about the relevant states of nature (Louberge, 1991). Insurance is a
common market of concern. Following enrollment in insurance plans, insurers and consumers are exposed to
asymmetrical information in the form of ex post moral hazard (Arrow

elasticity of demand among patients with type 2 diabetes is likely to decline. Furthermore, diabetes is
significantly more prevalent amongst adults with lower levels of education (Colorado Department of Public
Health and Environment 2017), which may exacerbate this effect.
Elasticity of demand is also impacted by a patient·VVeverity of illness, as it is likely to influence his
perceived value of medical care and pharmaceutical treatment. Prediabetics and individuals with type 2
diabetes frequently experience seemingly harmless symptoms, if they experience anything at all (ADA 2012).
Consequently, these individuals may feel that their illness is less serious, especially considering its ubiquity,
and display more elastic demand.
Contrarily, type 1 diabetics and the elderly are more likely to have inelastic demand. As previously
mentioned, people with type 1 diabetes may feel that their illness is more severe, and therefore be willing to
pay higher prices for treatment. Age is another likely determinant for whether a patient feels that his illness is
pressing enough to merit prescription treatment. Older people are more likely to be risk averse as negative
outcomes can be m

Firms within a monopolistic pricing agreement are required to share the collusive profit. Therefore,
each supplier must receive a smaller share of total profits as the number of firms within the agreement
increases. This has two implications. First, the gain from undercutting the collusive price increases for each
firm since it can steal market shares from competitors. Second, the long-term benefit of maintaining collusion
for each firm is reduced, precisely because it gets a smaller share of the collusive profit. For both of these
reasons, collusion is significantly simpler when there are fewer firms.
Furthermore, in any market with negotiated prices, price disclosure grants firms additional bargaining
power. This effect is strongest in markets that have a small number of firms (Stigler 1964). Specifically, price
transparency increases the applicability of punishment strategies by allowing firms to know when one firm
deviates from a collusive strategy. As such, when dealing with a market that has few competitors, minimal
informational disclosure is required to incentivize collusion. This point is further emphasized by the fact that
inferring deviations from collusive conduct is simpler and requires less market data when a market is stable as
compared to when a market is unstable (Ivaldi 2003).
Seeing as the Colorado market for diabetes medication is characterized by a small number of
suppliers and is unlikely to suffer from significant demand shocks (Colorado Department of Public Health
and Environment 2017), the public availability of pricing information and wholesale acquisition costs may
provide a stronger incentive for collusive behavior than was originally predicted. However, this is strictly
speculation. Nonetheless, it will hopefully motivate greater levels of research into the Colorado market,
alongside increased levels of critical thinking regarding the impact of HB 18-1009.
In the wake of rising PHGLFDOH[SHQGLWXUHV´SULFH WUDQVSDUHQF\µKDVEHFRPHWKHQHZKHDOWKFDUH
mantra, especially with regards to prescription drugs. However, as this analysis demonstrates, greater
informational availability is not a panacea for rising market prices and high levels of price dispersion. Indeed,
while HB 18-1009 and similar price transparency initiatives are well-intentioned, the realities of insurance
practices, complicated consumer demand, and the possibility of collusion are likely to render this bill nothing
more than a moral victory.