capacity over a larger volume of production. Differently considered, the seller is simply charging as high a price as he can in two markets which can be separated from each other. Separation exists since hospitals do not resell to druggists at higher prices. By doing so, the seller is engaging in price discrimination (in an economic if not legal sense) since he can get much higher prices in one market than in the other because of the different type of demand and supply situations in the two markets. The supply situation differs not because the cost of production differs, but because sellers can be induced to compete in price in one market and not in the other. The difference in the demand situations deserves more attention.

The druggists' demand for drugs is derived from the demand of the individual patient, which is of course very insensitive with regard to price because of the reasons outlined above. Retail druggists can afford to pay high prices for drugs since they can charge even higher prices to their customers without discouraging sales. The demand on the part of hospitals and other public agencies is differently constituted. These are non-profit agencies which operate within a general budget, and while they do not concern themselves directly with selling individual items in accordance with a market-oriented schedule of charges, they are concerned with lowering total operating costs and staying within budgets. Their purchasing agents may also take pride in the successful exercise of professional skills through economical buying. But although an interest in economical purchasing is a necessary condition for obtaining low prices, it is not sufficient unless rival sellers can actually be compelled to compete in terms of price. Other things being equal, retail druggists might have less interest in economical purchasing because they could more readily pass on their high costs to their paying customers. But hospitals with charity patients and a whole host of other exotic financial problems may be less able to forego possible savings from economy in purchasing. Furthermore, hospitals may manufacture some of their own drug needs if they cannot obtain reasonable bids, and this is another factor which makes their demand for drugs less insensitive to price. With demand more responsive to price, hospitals and public agencies can obtain lower prices for many of their requirements, particularly where absence of patent monopoly makes it possible for generic firms to compete. But where patent monopoly obtrudes, there may be no avenue through which prices may be lowered for any buyer.

B. Factors influencing the demand for prescription drugs

It is chiefly the nature of demand for prescription drugs which makes the drug industry an inappropriate vehicle for the unregulated exercise of market power by sellers. Demand is so insensitive to prices charged that there is little exaggeration in stating that prices have no relation whatsoever to costs. This is contrary to the economics of almost all other industries, where price is broadly determined by the relationship of demand and supply, and where supply is at least directly conditioned or influenced by costs of production. In a purely competitive industry the relationship is conceptually precise: market price is determined by the relationship between the supply price of a good, defined as the cost of production of a given rate of output (including in costs the competitive rate of return on necessary investment) and the demand price which the market is willing to pay in order to buy a given volume of output. While supply price depends upon production costs, demand price depends upon the consumer's need for the product and on his income level. Wealthy and needy buyers will constitute the highest-price or most price-insensitive segment of demand, while buyers with low incomes and/or slight interest in the product will be potential buyers only at very low prices. But since those who are willing to pay a very high price for the product will also buy it at all lower prices, a reduction in price will increase sales, and while it attracts new buyers into the market, it also benefits buyers by cutting their costs of purchasing so that in a very real sense they obtain a "free" increment of "use value" over and above the price which they pay. Since price discrimination is impossible in pure competition, all buyers pay the same price, regardless of their incomes or their relative need for the good.

Under monopolistic market circumstances, even assuming that the structure of demand and the costs of production are the same as in competition, the sellers are in a better position to restrict output, limit sales only to those who are most willing and most able to pay high prices, and in this sense charge "what the