PRESCRIPTED

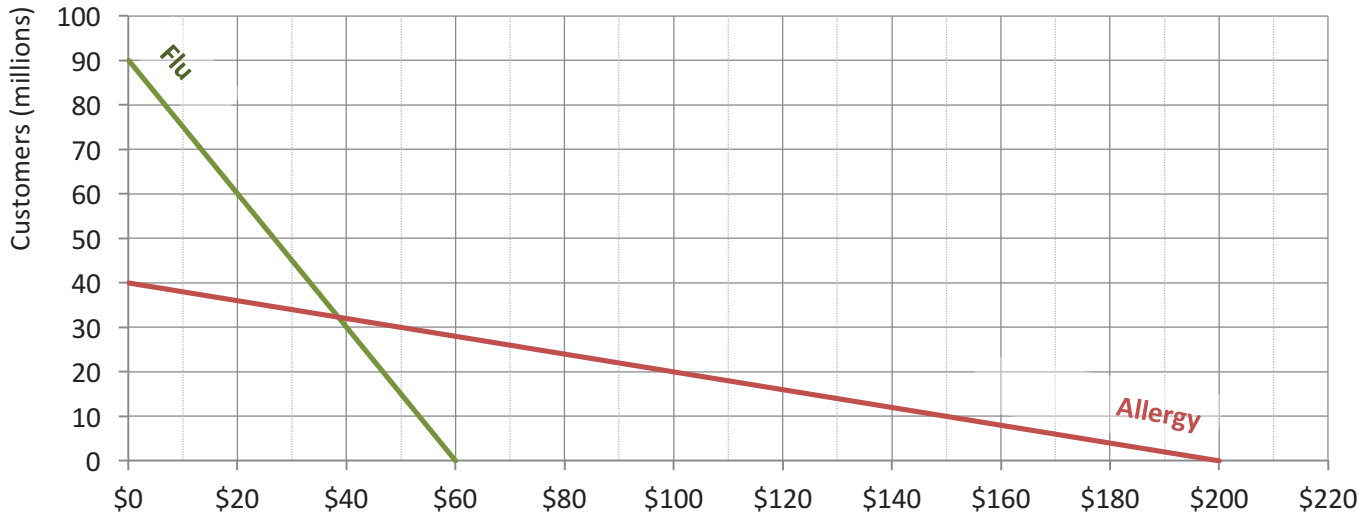
How should pharmaceutical companies decide what to develop?

name

date

Act One: Sneezy

1 The lines below model the possible relationship between the price and **demand** for two medications: an annual flu shot and a year's worth of allergy pills. Describe the demand for each medication as thoroughly as you can.

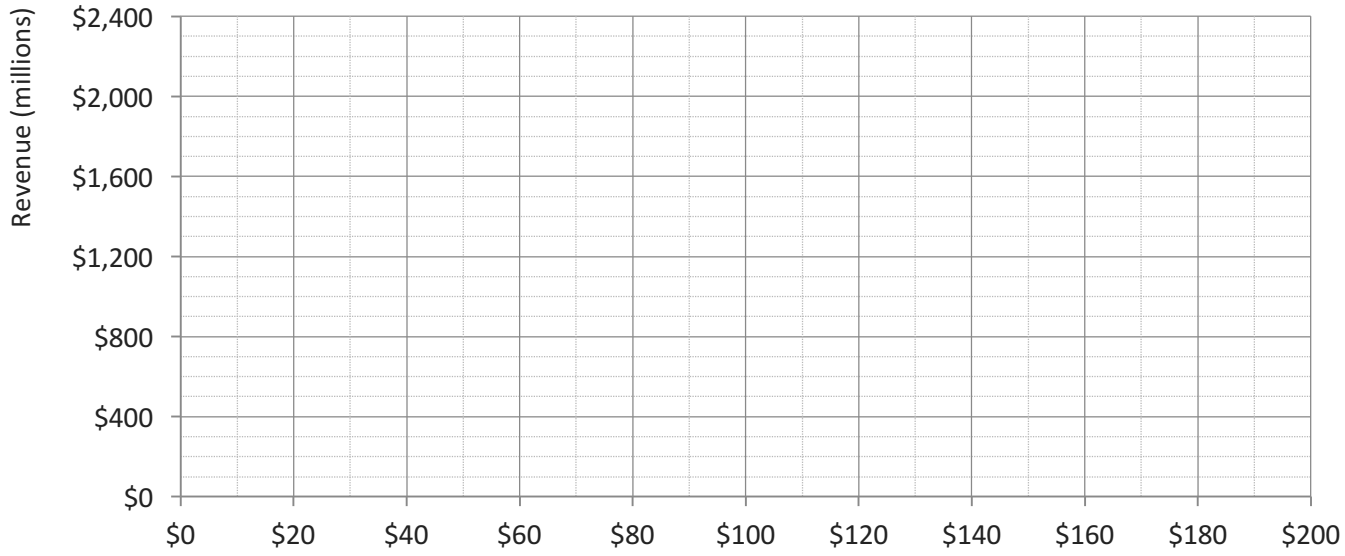


2 At prices of $10 and $50, determine how many people would buy each medication. How much **revenue** would the company earn in each scenario, and do you think it's a good idea to charge as much as possible? Explain.

	Price = $10		Price = $50	
	Customers	Revenue	Customers	Revenue
Flu Shot				
Allergy Pills				

Act Two: Grumpy

3 For each medication write and graph an equation for revenue. If the company wanted to maximize its revenue, what price should it charge for each medication and how much would it earn?



	Revenue (Equation)	Optimal Price	Revenue
Flu Shot			
Allergy Pills			

4 On average, pharmaceutical companies spend $1.4 billion (and up to $11 billion) to develop a new medication. When companies decide which drugs to develop, what factors do you think they should consider and why?

5 In 2014, an outbreak of the Ebola virus killed more than 10,000 people in Africa and one in the United States, in part because there didn't yet exist a vaccine. Listen to the *Marketplace* radio clip. In situations like this, how might companies be incentivized to develop much-needed drugs, even if they're not as profitable as others?