Despite the importance of patient insurance in the market for prescription pharmaceuticals, little is known about the impact of patient reimbursement on the pricing behavior of pharmaceutical firms. This paper examines the link between potential patient out-of-pocket expenses and pharmaceutical pricing using a unique policy experiment from Germany. Starting in 1989, a maximum reimbursement for a given medicine replaced a flat prescription fee. This change in reimbursement exposes the patient to the price of a prescribed product. Using a product level panel dataset covering several therapeutic categories before and after the policy change, I find that producers significantly decrease prices after the change in potential patient out-of-pocket expenses. Price declines are most pronounced for brand name products. Moreover, branded products that face more generic competitors reduce prices more.

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1 Throughout the paper the term Germany refers to the states comprising the Federal Republic of Germany before reunification.