

**MARGIN RATE RULE:
A NEW PHARMACEUTICAL PRICE CONTROL POLICY**

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ABSTRACT. This article theoretically evaluates the pharmaceutical price control policy in Japan and suggest an alternative more efficient policy. The Japanese current pricing rule “R2 rule” causes high drug price and social inefficiency that is similar to the well-known double marginalisation problem. To solve this problem, we derive an alternative pricing rule “margin rate rule”. We show that the margin rate rule improves Pareto efficiency: the rule leads to both lower drug price and higher profit of pharmaceutical firms. One practical advantage in implementing this rule is that the government only needs production cost information and do not need drug efficacy, competition and the other demand-related information.

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