

## **Who Pays for Gifts to Physicians? Heterogeneous Effects of Industry Payments on Drug Costs**

This paper estimates the impact of gifts - monetary or in-kind payments - from pharmaceutical firms on physicians' prescription decisions and drug costs in the US. Using exhaustive micro data on prescriptions for antidiabetic drugs from Medicare Part D, we find that payments cause physicians to prescribe more brand drugs. On average, for every dollar received, payments generate a \$6 increase in drug costs. Using causal forests, we show that differences in physician responses are predominantly explained by the insurance coverage of patients: physicians prescribe more brand drugs in response to payments when patients benefit from subsidies that reduce out-of-pocket drug costs. Finally, we estimate that a gift ban would reduce drug costs to treat diabetes by 3%.