This paper investigates the effect of (potential) market size on entry of new drugs and pharmaceutical innovation. Focusing on exogenous changes driven by U.S. demographic trends, we find that a 1 percent increase in the potential market size for a drug category leads to a 4 to 6 percent increase in the number of new drugs in that category. This response comes from both the entry of generic drugs and new non-generic drugs, and is general Industrial Organization Theory | New Economic School Second Year, Module 2, 2010-2011. Instructor: Tatiana Mikhailova. Syllabus. Industrial Organization is a study of firms, markets, and their interactions. We will step away from the assumption of competitive markets and consider how firms’ decisions affect each other. This is the first part of the two-module IO Theory sequence. John Sutton, “Chapter 35 Market Structure: Theory and Evidence,” Handbook of Industrial Organization, Volume 3, (2007) Horizontal and Vertical Mergers. Vertical integration and restrictions Farrel J., and C. Shapiro, 1990, “Horizontal Mergers: An Equilibrium Analysis,” American Economic Review, vol. 80, 107-126. Contributions are welcomed in all areas of industrial economics: including organization of industry; applied oligopoly theory; product differentiation and technical change; theory of the firm and internal organization; regulation, monopoly, merger and technology policy. These subjects may often draw on adjacent areas such as international economics, labour economics and law, but it is not the goal of this journal to publish papers that would better fit in specialized journals in these other fields. The Journal of Industrial Economics has a tradition of publishing a blend of theory and evidence. Case studies should be motivated by, and inform, economic theory and should avoid pure description.