1. Should Pharma disclose or not?

It would seem like disclosure is a bad strategy since it gives away a key piece of information—Pharma’s lobbying expenditures—and thus makes Generic’s life easier. However, the fact that generic reacts to this information potentially offers a powerful strategic tool for Pharma. By strategically choosing how much to spend, it can shape generic’s reaction and possibly deter entry.

Disclosure acts as a commitment strategy on the part of Pharma. In the simultaneous move game, it would like generic to think it will spend a lot on lobbying. That way generic will spend very little and Pharma will win the game cheaply. The problem is that this is not believably to generic. In other words, the “threat” to spend a lot on lobbying is not credible in the simultaneous move game. Under disclosure, Pharma commits to a high level of expenditures and thereby forces generic to react.

In general, the option to disclose is a good thing. At worst, Pharma can merely mimic the situation under the simultaneous move game since, in equilibrium, each player has a correct mental model of the other. However, disclosure presents Pharma with additional options beyond this status quo. These options may (and typically will) offer greater profits. Disclosure, in this instance, is the right strategy.

2. Why isn’t giving away (disclosing) information a bad thing for Pharma?

The key is outward thinking. Each side has a mental model of the other. If the players are experienced and/or strategically sophisticated, these mental models will be pretty accurate. Thus, the information about what Pharma’s lobbying expenditures are is, in a sense, already known (or at least anticipated) by generic. Thus, “giving away” this information is not strategically harmful and offers upside possibilities as well.