We study the demand response to non-linear price schedules using data on insurance contracts and prescription drug purchases in Medicare Part D. Consistent with a static response of drug use to price, we document bunching of annual drug spending as individuals enter the famous "donut hole," where insurance becomes discontinuously much less generous on the margin. Consistent with a dynamic response to price, we document a response of drug use to the future out-of-pocket price by using variation in beneficiary birth month which generates variation in contract duration during the first year of eligibility. Motivated by these two facts, we develop and estimate a dynamic model of drug use during the coverage year that allows us to quantify and explore the effects of alternative contract designs on drug expenditures. For example, our estimates suggest that filling. The donut hole, as required under the Affordable Care Act, will increase annual drug spending by $180 per beneficiary, or about 10%. Moreover, almost half of this increase is "anticipatory," coming from beneficiaries whose spending prior to the policy change would leave them short of reaching the donut hole. We also describe the nature of the utilization response and its heterogeneity across individuals and types of drugs.