FIRST-DEGREE PRICE DISCRIMINATION

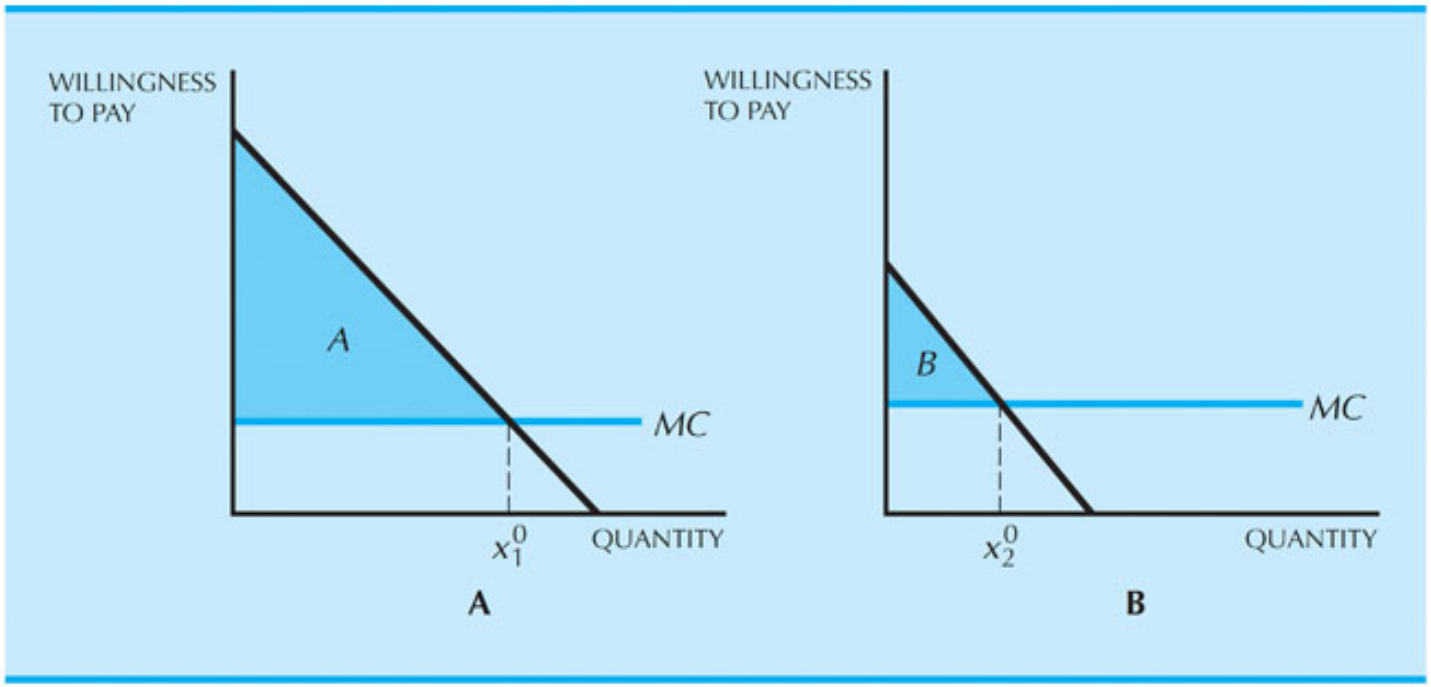
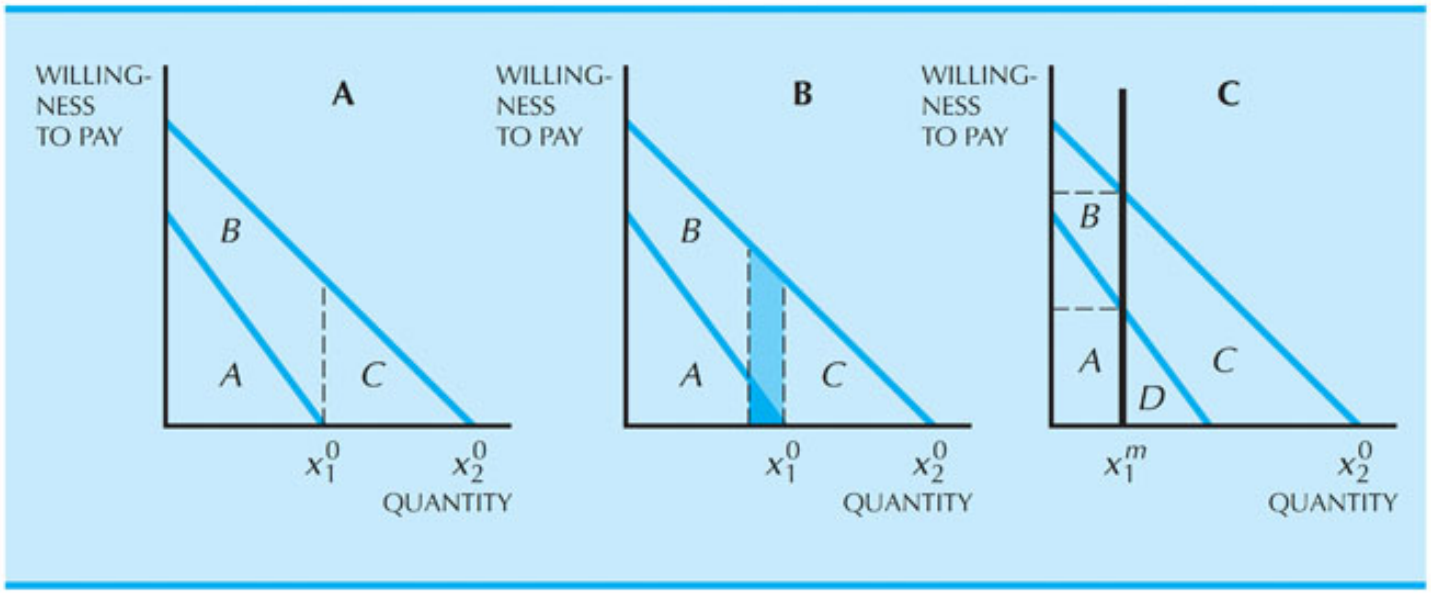


Figure 26.2

SECOND-DEGREE PRICE DISCRIMINATION

Figure 26.3



$$\max_{y_1, y_2} \quad p_1(y_1) \cdot y_1 + p_2(y_2) \cdot y_2 - c(y_1 + y_2)$$

$$FOC: \quad MR_1(y_1) = MC(y_1 + y_2)$$

$$MR_2(y_2) = MC(y_1 + y_2)$$

$$p_1(y_1) \cdot \left[1 - \frac{1}{|\epsilon_1(y_1)|}\right] = MC(y_1 + y_2)$$

$$p_2(y_2) \cdot \left[1 - \frac{1}{|\epsilon_2(y_2)|}\right] = MC(y_1 + y_2)$$

$$|\epsilon_1(y_1)| < |\epsilon_2(y_2)| \iff p_1(y_1) > p_2(y_2)$$

TWO-PART TARIFF

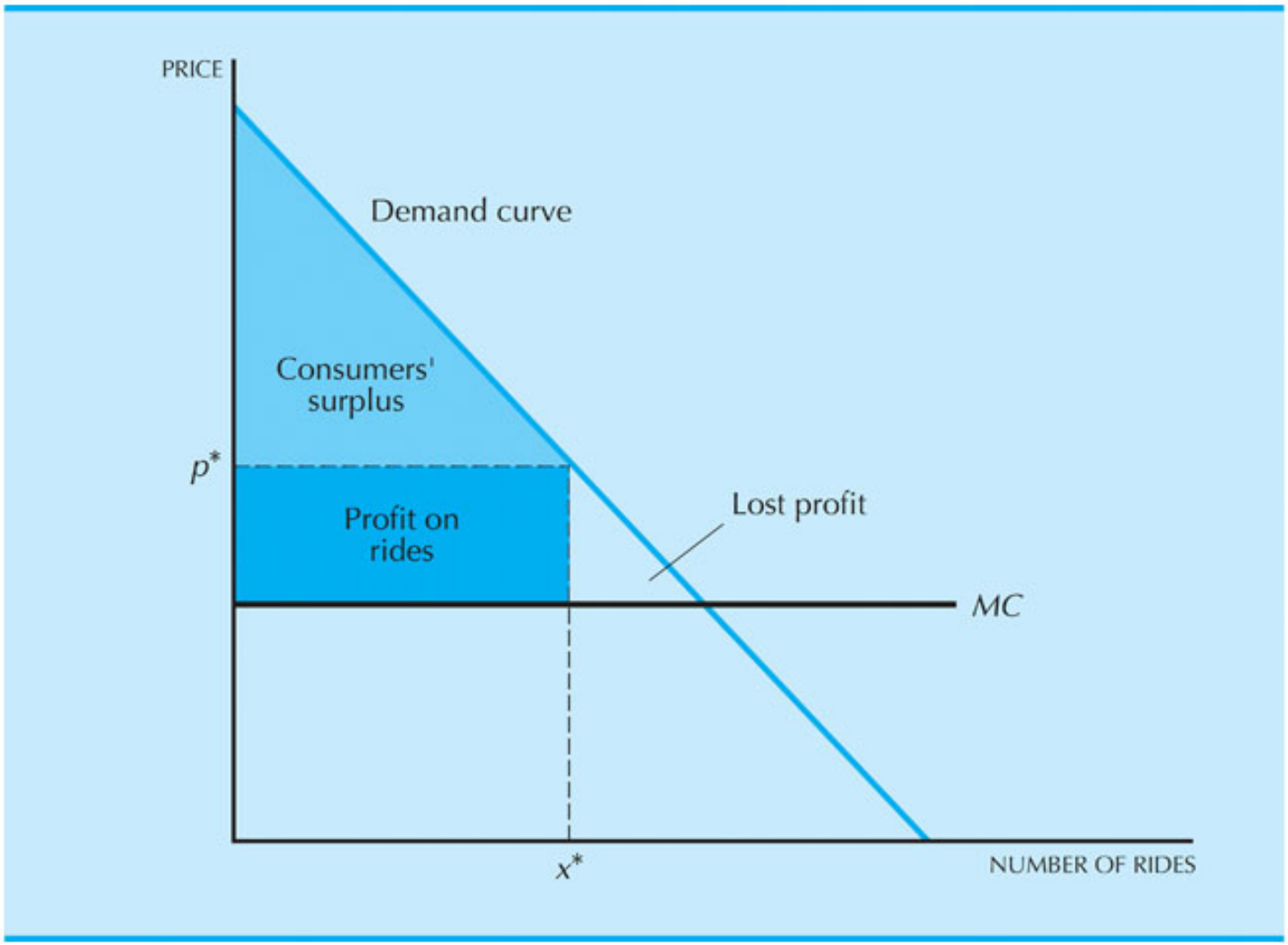


Figure 26.5

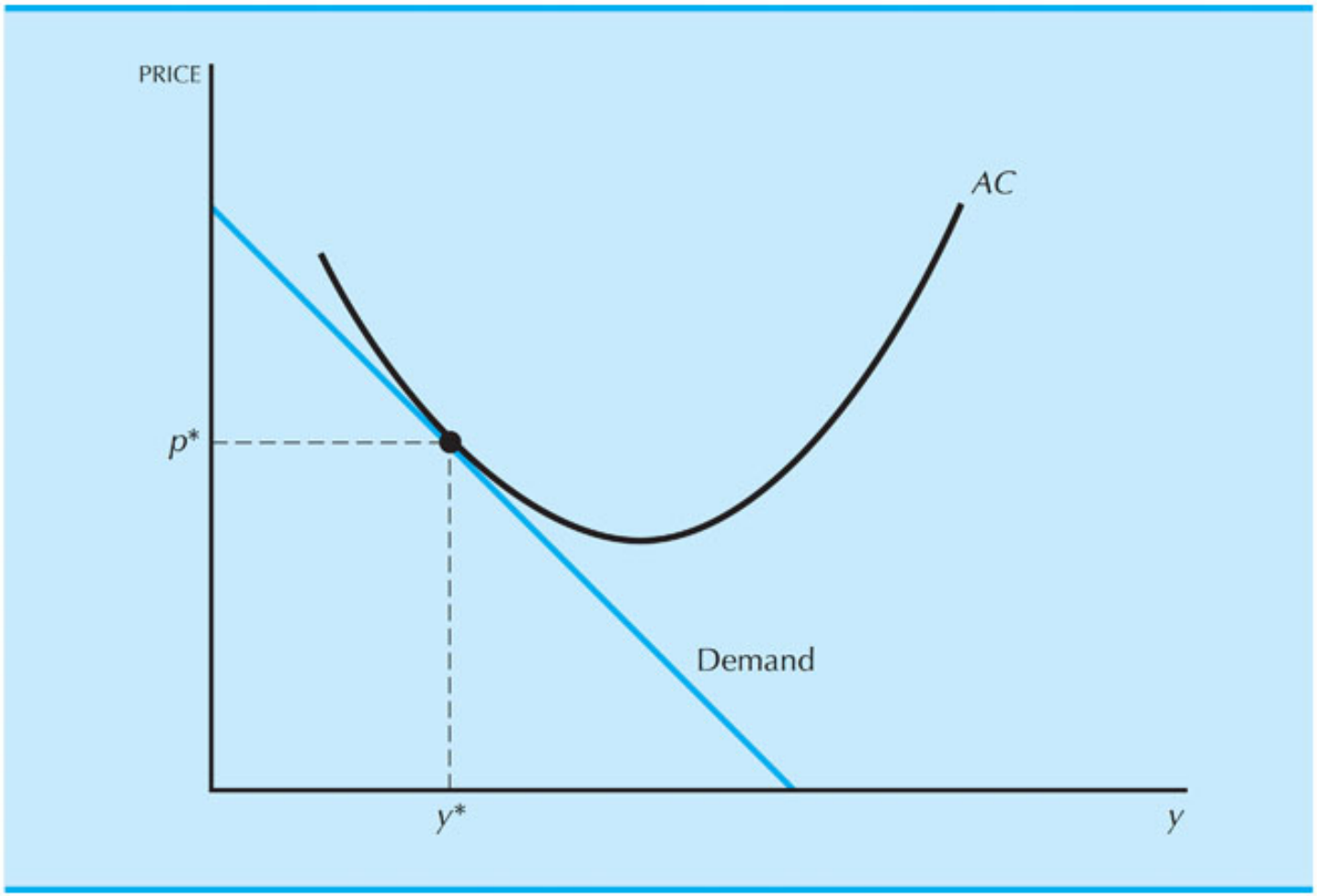


Figure 26.6