Principles of Economics Review Session

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§12.6 Price Discrimination 差別取價

- Ways to restore some efficiency loss under monopoly?
- First-degree: Charge the maximum willingness to pay for each customer
  - ‣ This can fully restore social surplus, in an unequal way
  - ‣ Hard to achieve since you need to know many information
  - ‣ Ex. Panama Canal's pricing
- Second-degree: Charge based on quantity of purchase
  - ‣ Let those who has lower willingness to pay to self-select and buy at different quantity
  - ‣ Ex. Discount coupons, quantity discounts, 第二件六折
- Third-degree: Charge based on characteristics of customers
  - ‣ Some people may have lower willingness to pay, such as students
  - ‣ Ex. Student tickets, airline tickets, movie tickets
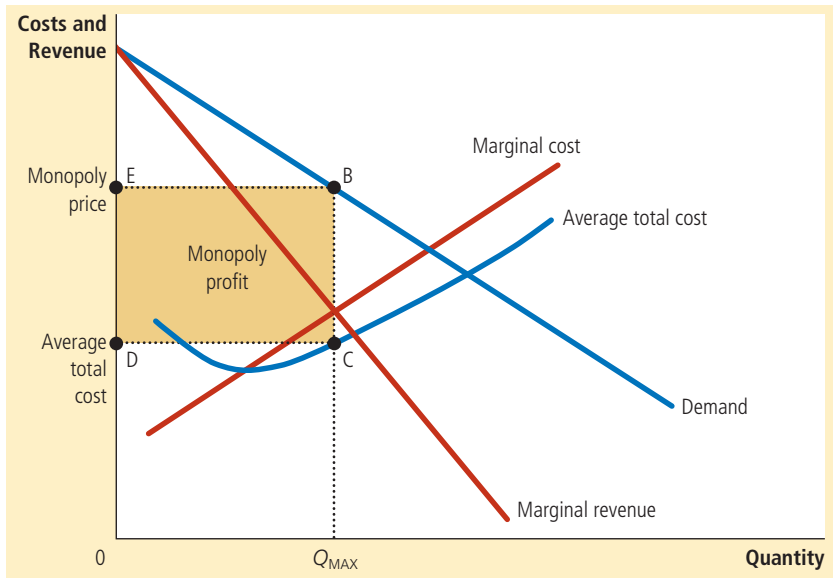
First-degree Price Discrimination
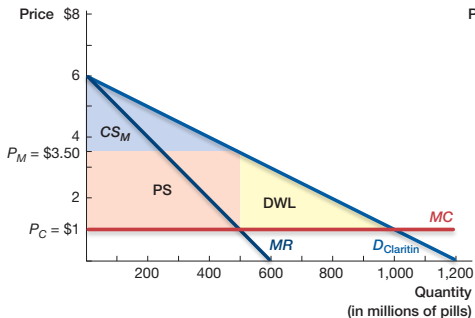

(a) Monopoly outcome with one price
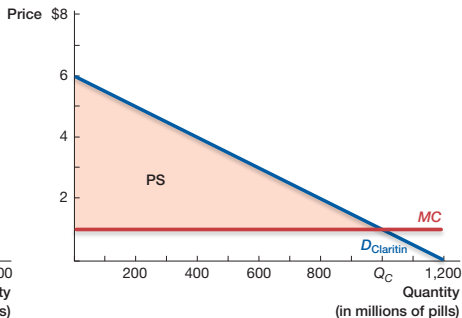
(b) Monopoly outcome with perfect price discrimination

Monopolist's Profit

ALL 12-11. Imagine that you arrive at an economics experiment with six other people and are told that you will simulate a market. You will be the only seller. The other five people will be assigned a dollar value that they will receive if they buy the good for any amount of money (so if a person's value is $6, he will buy the good for any price less than $6 and will be happy). You are also given the following demand curve and told that it represents the values that the "buyers" are assigned:
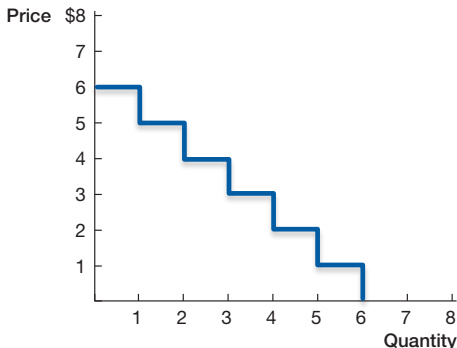
a. If you are told that you can produce as many units as you like at a cost of $2 per unit, what would your marginal cost curve look like? Add the marginal cost curve that you face as the monopolist to the graph.

b. Draw the marginal revenue curve that you face as the monopolist, based on the demand curve given above.

c. What price would you set and what quantity would you produce if you have to post one price at which everyone can purchase the good?

d. Based on the price and quantity you selected in part c, what would consumer surplus be? What would producer surplus be? Is there a deadweight loss?

e. Imagine that you are told that now you can have a discussion with each buyer privately to negotiate a price. Would you still charge everyone the same price? Explain your answer.

f. Calculate the surplus and the deadweight loss for the scenario with perfect price discrimination.

2009 Multiple Choice Q5. Price discrimination is a rational strategy for a profitmaximizing monopolist when

A. The monopolist finds itself able to produce only limited quantities of output.
B. Consumers are unable to be segmented into identifiable markets.
C. The monopolist wishes to increase the deadweight loss that results from profit maximizing behavior.
D. There is no opportunity for arbitrage across market segments.

2015 True or False Q6. If the customers of a monopolist could get together and bribe him to act like a competitor, then they could make both themselves and him better off.

2015 True or False Q7. If Hewlett Packard could require all HP laser jet printer owners to buy all of their toner cartridges directly from HP, it would charge monopoly prices for those toner cartridges.

2015 True or False Q8. A profit-maximizing monopolist whose firm was a source of negative externalities might produce exactly the socially optimal level of output.