# Chapter 11 Q and A without Answers

**(1) Which of the following is NOT a good example of price discrimination?**

    a.  UT charges a lower price to students than non-students for football tickets.
    b.  Target places all of its leftover Easter candy on 50% clearance.
    c.  Manufacturers offering a lower price to coupon shoppers.
    d.  Disneyland charging $20 less for seniors than "regular" aged individuals.

**(2) Charles, a graduate student in Economics, tutors undergraduates to supplement his income as a TA for ECO 304K. There are 9 students each week whom Charles might tutor. Their reservation prices for tutoring are given in the following table.**

| Student | Reservation Price |
|---------|-------------------|
| A | 50 |
| B | 46 |
| C | 42 |
| D | 38 |
| E | 34 |
| F | 30 |
| G | 26 |
| H | 22 |
| I | 18 |

    a.  If the opportunity cost Charles' time is $20 per hour and if must charge the same price to each student, then how many students should he tutor each week? What price should he charge? What will be his economic profit?

    b.  What is the socially efficient number of students for Charles to tutor? What would his economic profit be if he were to charge the same price to each student at tutor the socially optimal number of students?

    c.  Suppose Charles can tell exactly how much each student is willing to pay for tutoring (in other words, he knows their reservation price). How many students should he tutor, and what will be his economic profit?

    d.  Now suppose that Charles decides to offer a rebate coupon to students who go online and fill out a customer satisfaction survey. Suppose only students with reservation prices of $34 or less will ever bother to fill out the survey to get the rebate. In this case, how much should Charles charge for students who don't fill out the survey and how much should he charge students who do fill out the survey? What will his economic profits be?

e. How would your answer to part d change if instead only students with a reservation price of $30 or below are willing to fill out the survey?

**(3) In order to be able to effectively price discriminate a firm must**

    a. have a downward-sloping demand curve, be able to prevent resale, and identify at least two groups of customers with different elasticities of demand.
    b. have a perfectly elastic demand curve, be able to prevent resale, and identify at least two distinct set of customers.
    c. have an inelastic demand curve, encourage resale of the product, and charge a high price to those with the most elastic demand.
    d. have a perfectly elastic demand curve, encourage resale of the product, and identify at least two distinct set of customers.

**(4) Which is the best example of a firm that price discriminates?**

    a. Coldstone
    b. Old Navy
    c. Target
    d. Regal Cinemas

**(5) Where is price discrimination at work?**

    a. buying a value meal at Wendy's
    b. shopping at Old Navy
    c. buying a new computer at Walmart
    d. going to China Buffet for lunch, instead of dinner

**(6) On the graph below, label the areas of producer surplus, consumer surplus, and deadweight loss for a single-price monopolist.**



Single Price Monopolist
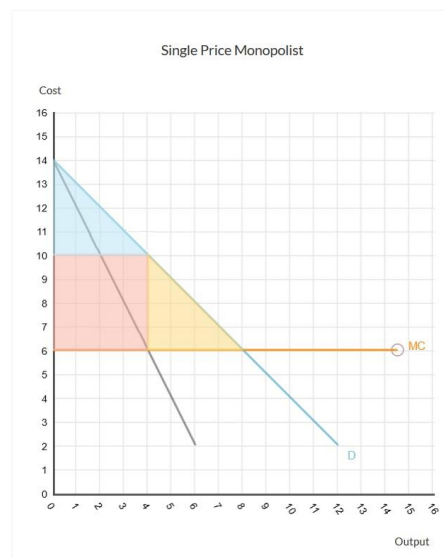
Suppose the single-price monopolist above figures out how to perfectly price-discriminate. What area represents the producer surplus that the monopolist can now get by perfectly price-discriminating?

**(7) Determine whether each of the following examples is best characterized by price discrimination, perfect price discrimination, or no price discrimination.**

a. The public bus line offers unlimited rides on the weekends for all of its customers.

b. Senior citizen tickets for basketball games are $5

c. A restaurant offers a 20% discount for customers who order dinner between 4 and 6 p.m.

d. A bookstore has a half-price sale on last year's editions.

e. A well-respected golf instructor charges each customer a fee just under the customer's maximum willingness to pay for lessons.

**(8) Describe the difference between 1st, 2nd and 3rd degree price discrimination and provide an example of each.**

**(9) Which of these is an example of second-degree price discrimination?**
      a. a jewelry store gives you a bigger discount because your clothes are shabby.
      b. a clothing store near a university offers a 10% discount to students.
      c. a pizza shop offers a buy two, get one free discount when you buy three large pies.
      d. Airlines charge flyers more to travel on Mondays.

**(10) When an airline price discriminates, this leads to**
      a. fewer customers flying.
      b. more customers flying.
      c. higher prices.
      d. lower prices.

**(11) Consider the table below, which shows seven potential customers, each interested in bungee jumping. How much additional profit will the firm make if it price discriminates by charging two prices? The MC is $0.**

| Customer | Maximum Willingness to Pay | Military ID |
|---|---|---|
| Daisy | $200 | NO |
| Tulip | 120 | NO |
| Rose | 70 | YES |
| Dahlia | 60 | YES |
| Begonia | 55 | YES |
| Camelia | 40 | NO |
| Poppy | 35 | YES |

a. $240
b. $165
c. $405
d. $275
e. $130

**(12) For price discrimination to be effective,**
a. The firm must charge everyone the highest price they can.
b. The firm must lower its price to attract more customers.
c. The firm must identify at least two groups of customers with different elasticities of demand.
d. The firm must charge those with elastic demand more, and those with inelastic demand less.