LECTURE 4.2

FIRST DEGREE PRICE DISCRIMINATION

PRICE DISCRIMINATION

Price discrimination (PD): selling the same/similar good at different prices to different customers.

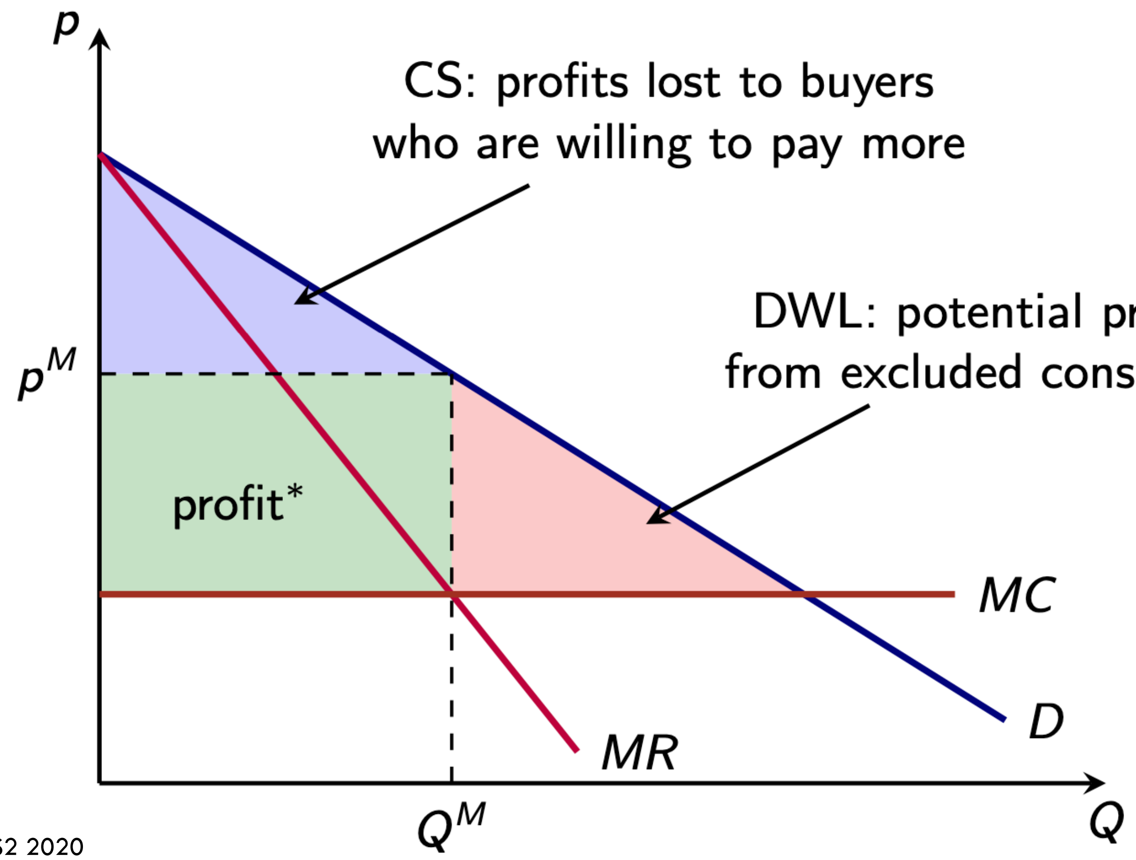
Price discrimination manifests in many ways:

- Different prices for different groups of customers (e.g. student/senior discounts, purchase history dependent prices)
- Quantity/bulk discounts; Selling a package of products at a discounted price
- Offering different “versions” of a product/service (e.g., economy class vs. business class)
- Varying prices over time (e.g. the prices of movies, books, and video games often decline over time; sales and fluctuating prices)

Crucial point: these price differences arise because of differences in demand, not the costs of serving the consumers.

PRICE DISCRIMINATION

Motivation :



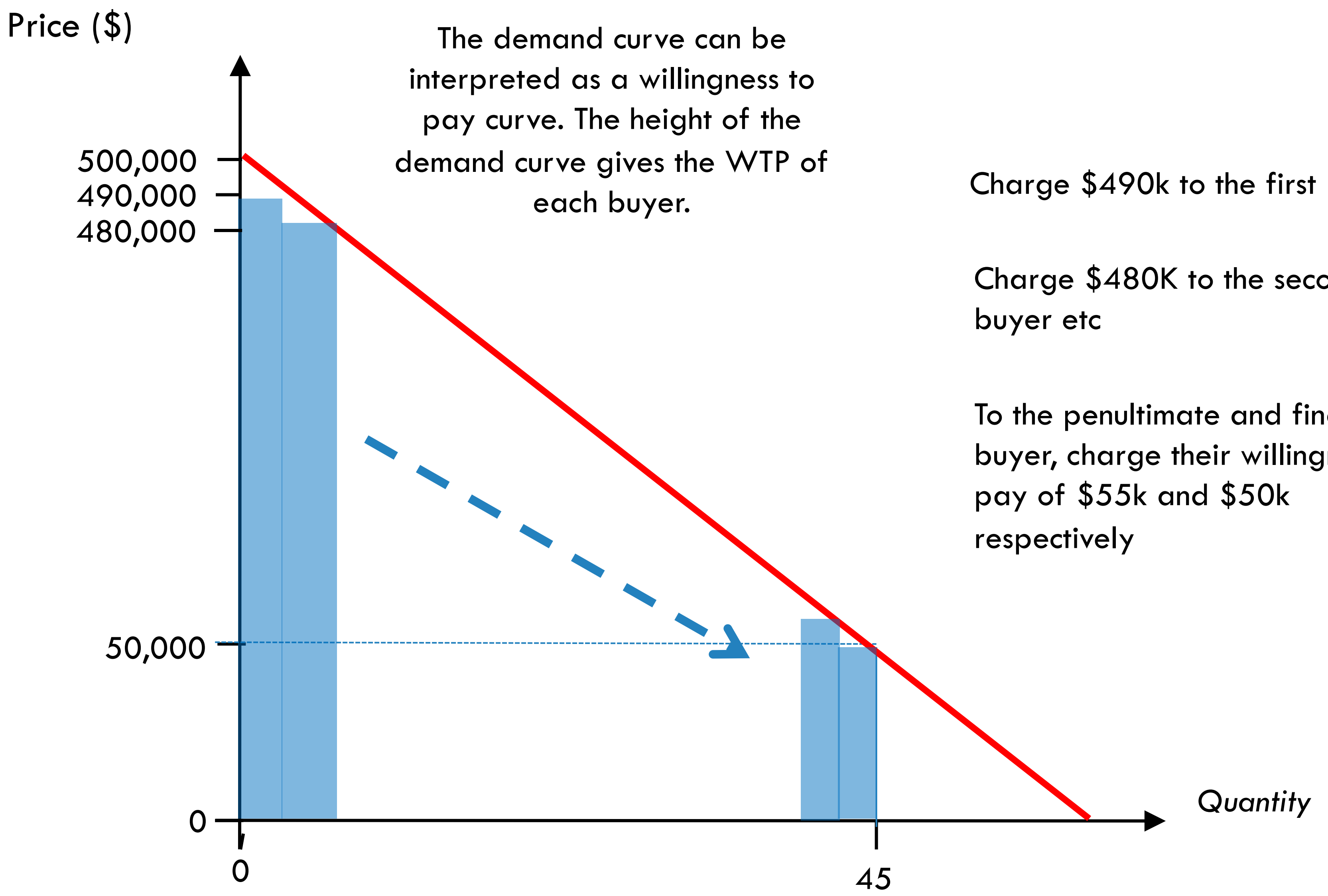
FIRST DEGREE PRICE DISCRIMINATION

What if you have heterogeneous customers, each with their own willingness to pay?

- Simply charge willingness to pay for each customer. This is first degree price discrimination.
- The firm extracts all surplus.
- Market efficiency is improved. There is no deadweight loss.

Is it ever feasible?

- Requires complete information about tastes and willingness to pay.



Charge $490k to the first buyer

Charge $480K to the second buyer etc

To the penultimate and final buyer, charge their willingness to pay of $55k and $50k respectively