LECTURE 4.3

TWO-PART TARIFFS

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There are two components to the price paid by a consumer

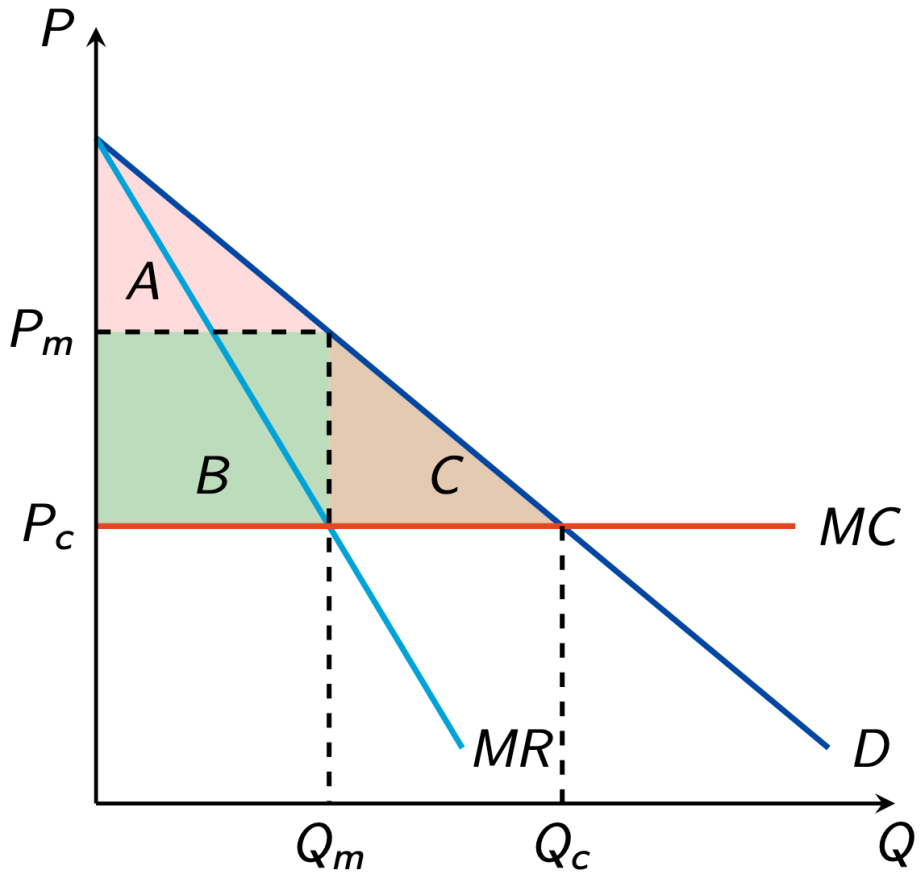
- a price per unit (e.g. $P = MC$)
- a fee to join (e.g. $F = CS$)

To buy q units, the consumer pays:

$$P_{bundle} = F + Pq$$

Examples: phone plans, theme parks, electricity plans, razors

TWO-PART TARIFFS



To sell Qc, the firm must charge $P_c < P_m$

Charge fee: $F=A+B+C$

Monopolist captures all consumer surplus and the previous deadweight loss

Higher profits than single-price monopolist

TWO-PART TARIFFS

With heterogeneous consumers the problem becomes a little more complex.

- Suppose we have two types of buyers – a high and low willingness to pay type.
- If we set per unit price = MC, the best we can do is to set the fixed fee at the consumer surplus of the low type consumer.

The optimal two-part tariff may involve a unit price different to MC