



Why Does Movie Popcorn Cost So Much? That \$4 bucket of popcorn you get in the movie theater costs less than \$0.10 to produce. What explains the 4,000 percent markup? Economists have struggled with this question for years, and now we have an answer.¹

Moviegoers vary in their willingness to pay for seeing a movie, and a movie theater has an incentive to identify the high demanders and charge them more, while keeping the price low for the low demanders. It turns out that a reliable predictor of the willingness to pay for a movie is the consumption of movie popcorn: The people who buy a lot of popcorn are the consumers who are willing to pay the most for a movie experience. So a convenient way for the theater to charge more to the consumers who are willing to pay more is to jack up the price of popcorn. As a result, the low demanders simply pay the admission price, while the high demanders pay the admission price plus the jacked-up price of a bucket of popcorn.

We can illustrate with a simple example. Suppose a low demander is willing to pay \$11 for a movie, while a high demander is willing to pay \$15 for a movie and popcorn. If the theater charges \$10 for admission and \$4 for popcorn, each consumer will get a consumer surplus of \$1 (equal to $\$11 - \10 for the low demander and $\$15 - \14 for the high demander), so both consumers will see the movie. If instead the theater charged \$12 for admission and \$0.10 for pop-

corn, the high demander will see the movie, but the low demander won't. The theater's pricing strategy gets the low demander into the theater at a price of \$10, and because the marginal cost of an additional consumer is close to zero, the theater's profit increases.