**One-pager**

**Outline:**

* Capturing Consumer Surplus

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* + Price Discrimination:

*Practice of charging different prices to different consumers for similar goods.*

* + Yield Management:

*A sophisticated form of price discrimination in which firms rapidly adjust the prices of their goods and services based on the preferences of consumers and their responsiveness to changes in prices.*

* Price Discrimination
  + *First-Degree, Second-Degree, Third-Degree Price Discrimination*

*Chart, histogram

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* + *Intertemporal Price Discrimination and Peak-Load Pricing*
  + *Cost Plus Pricing*
  + *Two-Part Tariff*

Yield Management

* **Yield Management** is used by firms with extremely perishable goods, or by firms with services that cannot be stored.
* **Examples:** Airlines, Hotels, Colleges, Car rental.

First-Degree Price Discrimination

* **Reservation Price**

Maximum price that a customer is willing to pay for a good.

* **First-Degree Price Discrimination**

Practice of charging each customer her reservation price.

Second-Degree Price Discrimination

* **Second-Degree Price Discrimination**

Practice of charging different prices per unit for different quantities of the same good or service.

* **Block Pricing**

Practice of charging different prices for different quantities or “blocks” of a good.

Third-Degree Price Discrimination

* **Third-Degree Price Discrimination** also called **Multimarket Pricing**

Practice of dividing consumers into two or more groups with separate demand curves and charging different prices to each group.

*We know that however much is produced, total output should be divided between the groups of customers so that marginal revenues for each group are equal.*

*We know that total output must be such that the marginal revenue for each group of consumers is equal to the marginal cost of production.*

Third-Degree Price Discrimination

**Creating Consumer Groups**

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**Determining Relative Prices**

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Third-Degree Price Discrimination

Consumers are divided into 2 groups, with separate demand curves.

Note that *Q*1 and *Q*2 are chosen so that

MR1 = MR2 = MC

Chart, line chart

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Other Pricing Strategies

* + Intertemporal Price Discrimination:

*Practice of separating consumers with different demand functions into different groups by charging different prices at different points in time.*

* + Peak-Load Pricing

*Practice of charging higher prices during peak periods when capacity constraints cause marginal costs to be high.*

Other Pricing Strategies

* + Cost-Plus Pricing: adding a percentage markup to average total cost
    - *higher markup when demand is price inelastic*
  + Two-Part Tariffs: initial fee for the right to buy the product and an additional fee for each unit of the product purchased

Two-Part Tariff with Many Different consumers

* + No exact way to determine P\* and T\*.
  + Must consider the trade-off between the entry fee T\* and the use fee P\*.
  + *Low entry fee: High sales and falling profit with lower price and more entrants.*
  + To find optimum combination, choose several combinations of P, T.
  + Choose the combination that maximizes profit.

