

Price Discrimination

- A firm selling the same good to different consumers at different prices for reasons not associated with cost differences

e.g. Tuition, airline, movie tickets, "discounts" of student, military, etc

Two Conditions for Successful Price Discrimination

- 1) Prevent resale of good/service - timestamps, ID requirement, wristbands
- 2) Distinguish groups with different price elasticities

General rule - \uparrow price to \sim inelastic consumers
 \downarrow price to \sim elastic consumers

Let consumers "self-select" student id discount
price discounts at certain times

Perfect price discrimination

- Firms charge a unique price to each consumer
== max. willingness to pay
- Reservation price = max. willingness to pay
- If firms can do this, will be 0 surplus

With price discrimination

- inelastic will pay higher price
- low price will attract elastic consumers
- sales \uparrow , welfare \uparrow , deadweight loss \downarrow