Price discrimination

• 1st degree or “perfect”
  – Maximizes total surplus but gives it all to seller
  – Requires that seller knows buyers’ demands
  – Then, doesn’t require separate incremental price for each unit
    • can achieve it with simple two-part tariff
    • Marginal price = MC; fixed fee extracts surplus
    • Attractive welfare recommendation even if not most profitable
Price discrimination by group

- Can price separately to identifiable types or groups of buyers
  - No arbitrage
    - Semi-identifiable buyers
  - No “cream-skimming” competition
    - First-class airlines
    - Telecommunications
  - Lerner equation for each group/type

PD with imperfect competition

- Lerner equation based on residual demand
- Competitively vulnerable customers get the low prices—not so Ramsey-like
- Nondiscrimination as consumer policy?
  - EchoStar-DirecTV merger
PD through self-selection

• Recall diagrams from a week ago
• Algebraic analysis
  – “High type” gets served efficiently
  – “Low type” gets package biased towards being unappealing to high type
    • Often, unappealing even to low type
    • French railroad carriages
    • Stock-market quotes

Pricing multiple goods

• Promote complements
  – FAUDNC etc
  – Lexmark and aftermarkets
  – Supermarket parking and milk
  – TV, radio, newspapers…
• Limit cannibalization
  – Merger analysis
  – Drug reimportation