

Price Discrimination with Self-Identification



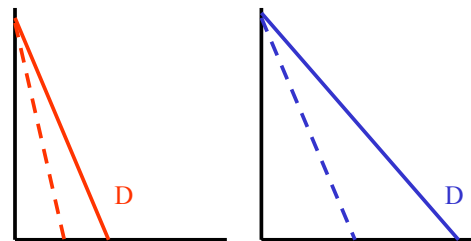
The Basic Problem

- Suppose the firm cannot tell one customer from another, but knows that there are demand differences to exploit.
- It must post a single price schedule.

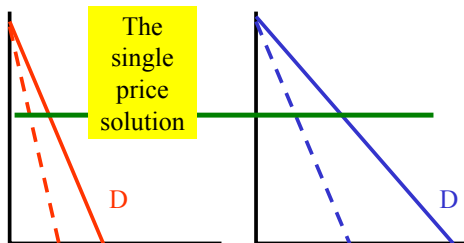
An Illustration

- Eduardo's Fine Foods makes gourmet peanut butter. It has two typical clients
 - The yuppie market, composed of swinging singles
 - The married market, where families purchase peanut butter for their kids.

Two Demand Functions

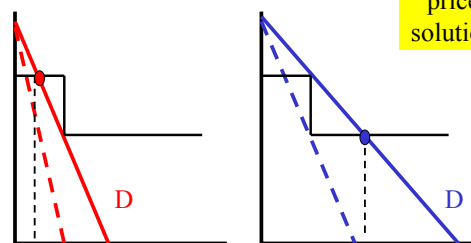


Two Demand Functions



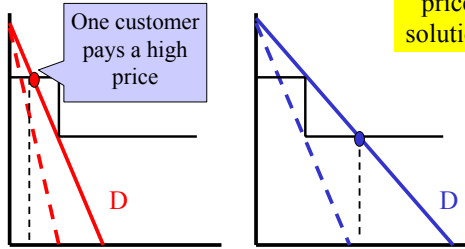
Two Demand Function

The Block price solution



Two Demand Function

The Block price solution

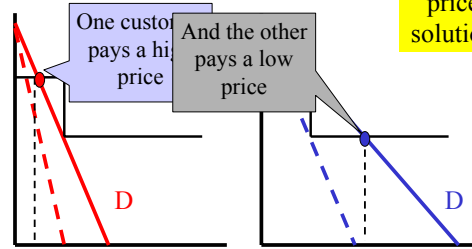


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Two Demand Function

The Block price solution



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Price Discrimination with Self-Identification

Implementation 101

- Eduardo's Gourmet Peanut Butter comes in two sizes:

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- Eduardo's Gourmet Peanut Butter comes in two sizes:
 - The regular one pound size costs \$2
 - The three pound family size costs \$4

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Implementation 101

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 - The marginal cost of the last two pounds is \$1 a pound.

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Price Discrimination with Self-Identification

Implementation 102

- Office Max has two types of customers for plain paper: households and businesses.

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Price Discrimination with Self-Identification

Implementation 102

- Office Max has two types of customers for plain paper: households and businesses. They sell it
 - By the ream (500 sheets)
 - By the case
 - By even bigger lots

Two Examples

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End

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