Price Discrimination - A Primer

MR₁ = MR₂ = MC

What is Price Discrimination?
– Selling the same good to different people at a different price.

– My grandfather once told me...

– And it is a good thing...

Selling at Different Prices

<table>
<thead>
<tr>
<th>Willingness to pay for a Word Processing Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smith</td>
</tr>
<tr>
<td>Jones</td>
</tr>
<tr>
<td>Wilson</td>
</tr>
<tr>
<td>Green</td>
</tr>
<tr>
<td>Brown</td>
</tr>
</tbody>
</table>

Sales at Different Prices

<table>
<thead>
<tr>
<th>Sales at Different Prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>$10</td>
</tr>
<tr>
<td>$20</td>
</tr>
<tr>
<td>$30</td>
</tr>
<tr>
<td>$40</td>
</tr>
<tr>
<td>$50</td>
</tr>
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</table>
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**Deadweight Loss**

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\[ DWL = $30 \]

**Different Prices**

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\[ \pi = $150 \]

\[ DWL = $0 \]

**The Basic Demand Function**

\[ P^* \quad Q^* \]

\[ MC \]

\[ MR \]

\[ D \]

\[ CS \]

\[ \pi \]

\[ DWL \]
Price Discrimination Basics

• No Arbitrage
  – To sell to different people at different prices, you must be able to prevent re-sales.
• Identifying Customers
  – Or at least getting them to self-identify.

The Hatfields and McCoys

\[ Q_H = 35 - p_H \]
\[ Q_M = 65 - p_M \]

\[ \frac{P_H - MC}{P_H} = -1 \]
\[ \frac{P_M - MC}{P_M} = -1 \]

\[ MR_1 = MR_2 = MC \]

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End

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