Solution to Three Discrimination Problems

Three Discrimination Problems

- Joe's Barber Shop
- Ethyl's Bar and Grill
- Fred's House of Pancakes

Joe's Barber Shop

- Joe's Barber Shop is located in a quiet Cleveland Suburb. Joe's customers either
  - Work in downtown Cleveland and home mainly on the weekends, or are
  - Residents of Happy Days Retirement Home.

Joe's Barber Shop

	Weekdays	Saturday
Commuters	$8	$15
Denizens of Happy Days	$6	$6

Joe's Barber Shop

	Weekdays	Saturday
Commuters	$8	$15
Denizens of Happy Days	$6	$6

What price should Joe charge weekdays? Saturday?

Joe's Barber Shop

	Weekdays	Saturday
Commuters	$6$8	$15
Denizens of Happy Days	$6$6	$6

The most he can get from the Happy Days residents is $6. Clearly he wants them to come on weekdays, so the weekday price is $6

Joe's Barber Shop

I assume Joe must price in quarters. No $12.99

	Weekdays	Saturday
muters	$6 $8	$12.75 $15
Denizens of Happy Days	$6 $6	$12.75 $6

If Commuters come Weekdays, they will get Consumer Surplus of $2. He must leave them $2.25 on weekends to get them to shift. Hence $12.75

Ethyl's Bar and Grill

- Ethyl's Bar and Grill has two types of customers. Their demand functions for drinks are

$$Q = 12 - 2p$$

and

$$Q = 24 - 3p.$$

- While Ethyl cannot tell the two types apart, she can prevent arbitrage.
- Devise a pricing system (MC = 0).

Ethyl's Bar and Grill

The Red Plan

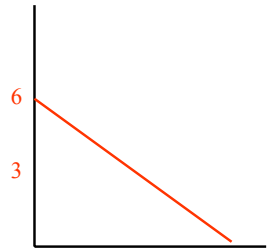
- Membership fee of $9
- $3.00 a drink

The Blue Plan

- Membership fee of $67.49
- Free Drinks

Ethyl's Bar and Grill

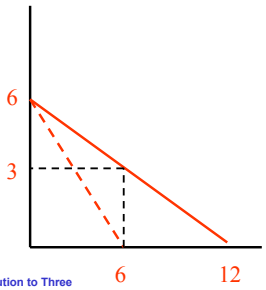
The Red Plan



Ethyl's Bar and Grill

The Red Plan

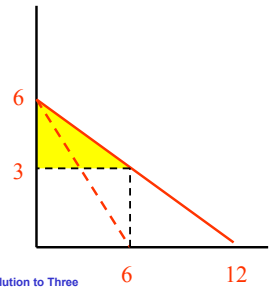
- Profit Maximizing price is $3



Ethyl's Bar and Grill

The Red Plan

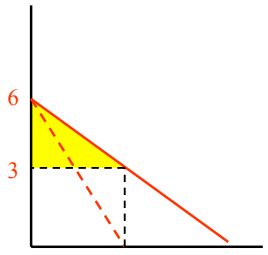
- Profit Maximizing price is $3
- Consumer Surplus is $9



Ethyl's Bar and Grill

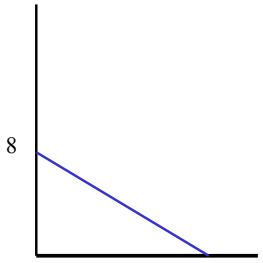
The Red Plan

- Profit Maximizing price is $3
- Consumer Surplus is $9
- Get both



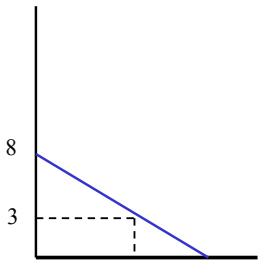
Ethyl's Bar and Grill

The Blue Plan



Ethyl's Bar and Grill

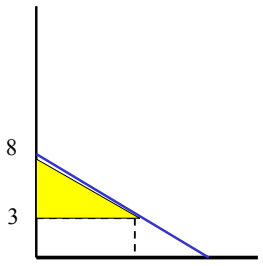
The Blue Plan



Ethyl's Bar and Grill

The Blue Plan

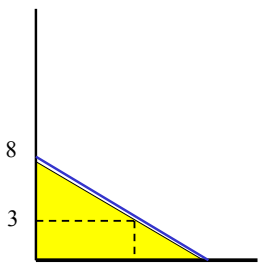
- Using the Red Plan, consumers get CS = $37.50- $9 = $28.50



Ethyl's Bar and Grill

The Blue Plan

- Using the Red Plan, consumers get CS = $37.50- $9 = $28.50
- Free drinks means CS = $96.

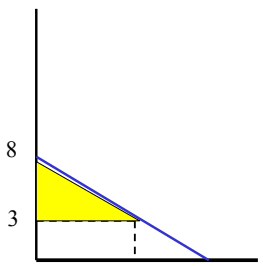


Ethyl's Bar and Grill

The Blue Plan

- Using the Red Plan, consumers get CS = $37.50- $9 = $28.50
- Free drinks means CS = $96.
- We must leave them $28.51, so set fee at

$96 - $28.51 = $67.49



Fred's House of Pancakes

- Fred has pancake houses in Seattle and Youngstown, Ohio. The demand functions for pancakes are

Seattle

$Q = 100\text{-}10P$

Youngstown

$Q = 80 - 20\,P$

Fred's House of Pancakes

- Fred has pancake houses in Seattle and Youngstown, Ohio. The demand functions for pancakes are

Seattle

$Q = 100\text{-}10P$

Youngstown

$Q = 80 - 20\,P$

- MC = 0.
- What price should Fred charge if the Uniform Pancake Pricing Act (UPPA) becomes law?
- What prices should Fred charge otherwise?

Fred's House of Pancakes

UPPA

Seattle

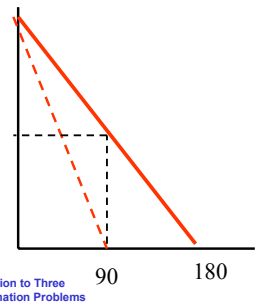
$Q = 100\text{-}10P$

Youngstown

$Q = 80 - 20\,P$

Total

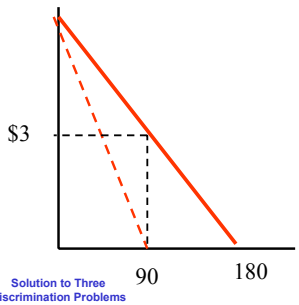
$Q - 180\text{-}30P$



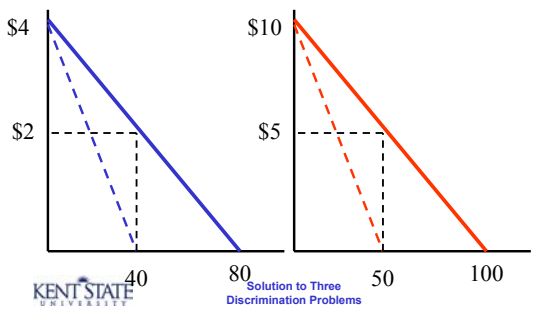
Fred's House of Pancakes

UPPA

- **Price at $3**



Fred's House of Pancakes



End