The Elite Diner

- The Elite Diner serves an all-you-can-eat buffet. It has two types of customers.
  - Senior Citizens, who know a good meal when they see it
  - Singles, who see it as a hot date site.

<table>
<thead>
<tr>
<th></th>
<th>Friday Night</th>
<th>Saturday Night</th>
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</thead>
<tbody>
<tr>
<td>Senior Citizens</td>
<td>$12</td>
<td>$12</td>
</tr>
<tr>
<td>Swinging Singles</td>
<td>$20</td>
<td>$35</td>
</tr>
</tbody>
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Friday $12
Saturday $26.99

Benefits to swinging singles:

$8 $8.01
Airline Pricing

- Airlines want to charge a high rate for business travelers (customers with a low elasticity of demand) and a lower rate for vacation travel (with a significantly higher elasticity of demand).
- They do so by imposing advance purchase requirements and requirements that the passenger stay over Saturday, etc.

Give Us This Day
Our Daily Special

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<th>T</th>
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</thead>
<tbody>
<tr>
<td>Roast Beef</td>
<td>3</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Ham &amp; Cheese</td>
<td>5</td>
<td>3</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Turkey</td>
<td>5</td>
<td>5</td>
<td>3</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Salami</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>3</td>
<td>5</td>
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<tr>
<td>Tuna</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>3</td>
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</tbody>
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If you don’t care what you eat, lunch is $3.00
If you do care, lunch averages $4.60

Getting all the Consumer Surplus
The Elite Diner

The Hatfields and McCoys:

\[ Q_H = 35 - p_H \]

\[ Q_M = 65 - p_M \]

Assume:

- These are the demand functions for individual Hatfields and McCoys.
- You cannot tell them apart.
- They cannot arbitrage.

The Club:

- Suppose the firm offers two choices:
  - Purchase units at a price of $20
  - Upon payment of a $775 membership fee, the right to purchase at $5 each.

The Hatfields:

- Total CS is \( \frac{1}{2} \times 30 \times 30 = 450 \)
- Hatfields will not take the membership plan.
- The $20 fee is the monopoly price.

The McCoy's:

- Their CS is \( \frac{1}{2} \times 60 \times 60 = 1800 \)
- \( \frac{1}{2} \times (60)(60) = 1800 \)
- \$1800 - $775 = $1025
- They could also buy at $20 each. Then their CS is \( \frac{1}{2} \times (45)(45) = $1012.5 \)

Can you Top This:

- What is the best you can do?
  - Gold Plan: Pay a $899.98 membership fee and get the right to purchase for $5
  - Silver Plan: Pay a $112.49 membership fee and get the right to purchase for $20.
Can you Top This

What is the best you can do?

• Gold Plan: Pay a $899.98 membership fee and get the right to purchase for $5
• Silver Plan: Pay a $112.49 membership fee and get the right to purchase for $20.

Usually you offer a zero fixed cost plan, for there are always casual users.

Examples

• Any purchaser of a cellular telephone service will recognize the idea here.
• You want to charge one price to the low use customer and another price to the high use customer.

End

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