

Three Examples

- Grocery Store Coupons
- · Loss Leaders
- · Tie-in Sales



Price Discrimination in Action

Grocery Store Coupons

 Manufacturers frequently give "cents off" coupons for their products. Why not simply cut the price?



Price Discrimination in Action

Grocery Store Coupons

- Manufacturers frequently give "cents off" coupons for their products. Why not simply cut the price?
- The benefits of coupons accrue to customers with a higher elasticity of demand (that is, their value of time is low and they will search for bargains) but not to customers with a low elasticity of demand.



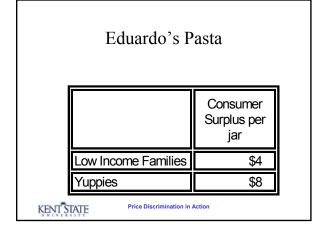
Price Discrimination in Action

Grocery Store Coupons

 If you don't believe this point, spend an hour in a supermarket on Thursday afternoon and on Saturday afternoon and witness the different frequency of coupon use.



Price Discrimination in Action



Price at \$8; run a \$4 newspaper coupon Price at \$8 with a buy one get one free offer LOW IT CONSUMER Surplus per jar jar yuppies \$4 Yuppies \$8

Loss Leaders

- Stores often have "loss leaders" where they sell one item below marginal cost.
 - Milk is frequently sold that way, as are turkeys at Thanksgiving and Christmas.
 - I am told that most infant formula in this country is sold as a loss leader, below the wholesale price.



Price Discrimination in Action

Loss Leaders

- The idea is to give a "rebate" to customers who have significant price elasticity because of their larger purchases (and who are thus more likely to search for good prices).
- Thus the posted prices are officially the same for all, but it works out differently in practice.



Price Discrimination in Action

Tie-In Sales

Customer	A	В
Smith	500	1100
Jones	1300	700
Brown	300	1600



Price Discrimination in Actio

Tie-In Sales

Customer	A	В
Smith	500	1100
Jones	1300	700
Brown	300	1600

Price A at \$1300; B at \$1100; total sales of \$3500

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Price Discrimination in Action

Tie-In Sales

Customer	A	В
Smith	500	1100
Jones	1300	700
Brown	300	1600

Sell at a package of \$1600; make three sales

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Price Discrimination in Action

