Price Discrimination with Self-Identification

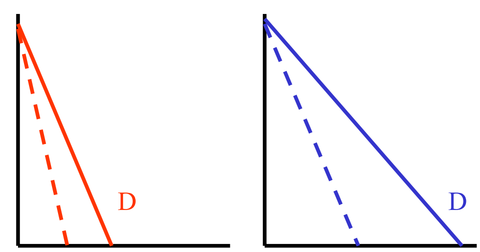
The Basic Problem

- 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



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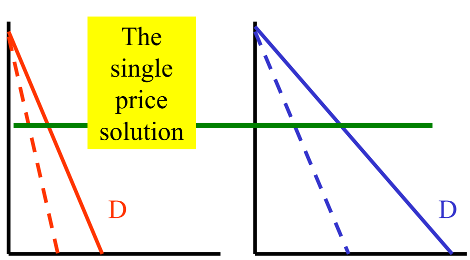

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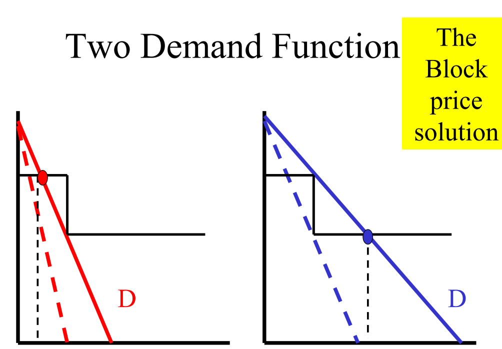
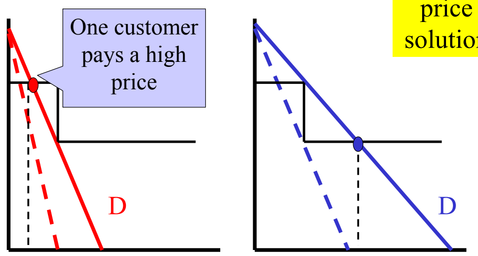


Two Demand Functions

The Block price solution



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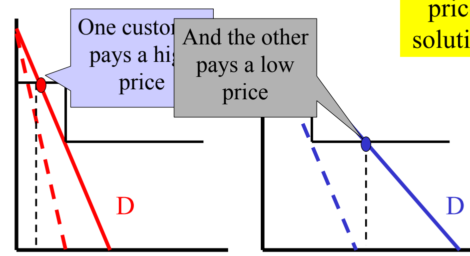

Implementation 101

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

Implementation 102

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  - By the ream (500 sheets)
  - By the case
  - By even bigger lots

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IBM could not, and so used punch cards as a proxy.

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End