

Price Discrimination-A Primer

$$MR_1 = MR_2 = MC$$

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

Willingness to pay for a Word Processing Program

<i>Smith</i>	\$10
<i>Jones</i>	\$20
<i>Wilson</i>	\$30
<i>Green</i>	\$40
<i>Brown</i>	\$50

Sales at Different Prices

Sales at Different Prices		
Price	Sales	Total Sales
\$10	5	\$50
\$20	4	\$80
\$30	3	\$90
\$40	2	\$80
\$50	1	\$50

Deadweight Loss

Willingness to pay for a Word Processing Program

Smith	\$10
Jones	\$20
Wilson	\$30
Green	\$40
Brown	\$50

$$DWL = \$30$$

Different Prices

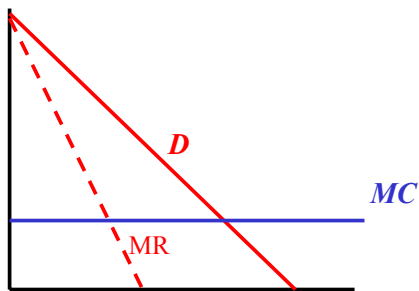
Willingness to pay for a Word Processing Program

Smith	\$10
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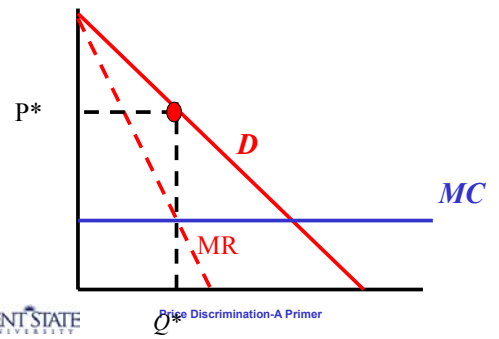
$$\pi = \$150$$

$$DWL = \$0$$

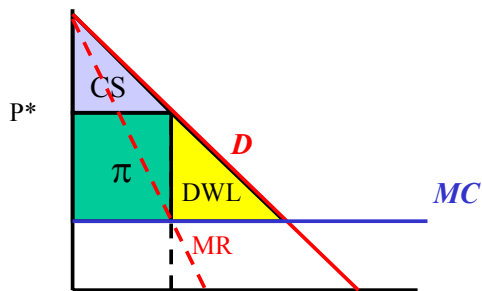
The Basic Demand Function



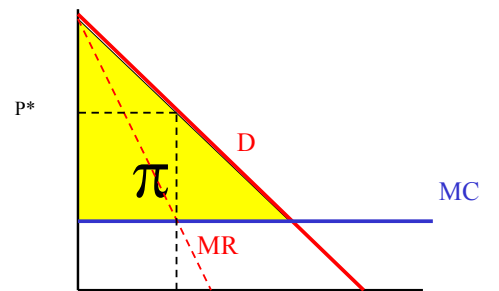
The Basic Demand Function



The Basic Demand Function



The Basic Demand Function



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

$$Q_H = 35 - p_H$$

$$Q_M = 65 - p_M$$

The Hatfields and McCoys

$$Q_H = 35 - p_H$$

$$Q_M = 65 - p_M$$

$$\frac{P_H - MC}{P_H} = \frac{-1}{\eta_H}$$

$$\frac{P_M - MC}{P_M} = \frac{-1}{\eta_M}$$

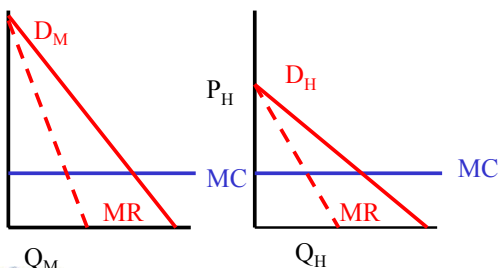
The Hatfields and McCoys

$$Q_H = 35 - p_H$$

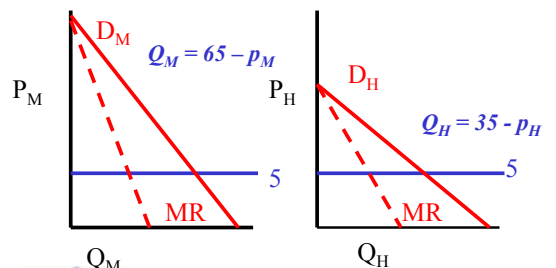
$$Q_M = 65 - p_M$$

$$MR_1 = MR_2 = MC$$

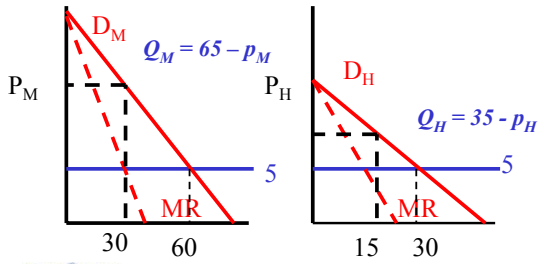
The Hatfields and McCoy's



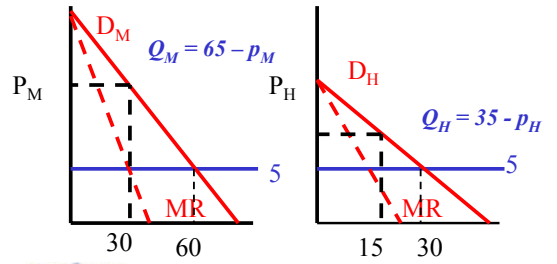
The Hatfields and McCoy's



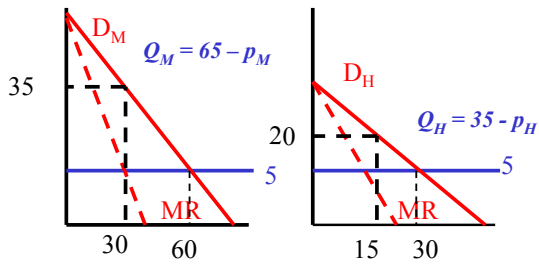
The Hatfields and McCoy's



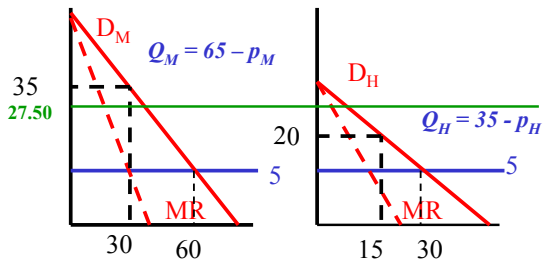
The Hatfields and McCoy's



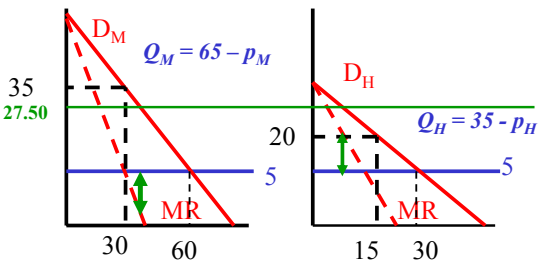
The Hatfields and McCoy's



The Hatfields and McCoy's



The Hatfields and McCoy's



End

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