

The Elite Diner



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.

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	Friday Night	Saturday Night
Senior Citizens	\$12	\$12
Swinging Singles	\$20	\$35

This is the most they will pay

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Friday \$12

Saturday \$26.99

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Friday \$12

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	Friday Night	Saturday Night
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Swinging Singles	\$20	\$35

Benefits to swinging singles

\$8

\$8.01

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This is an example of pricing on a secondary characteristic

	Friday Night	Saturday Night
Senior Citizens	\$12	\$12
Swinging Singles	\$20	\$35

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

	M	T	W	T	F
Roast Beef	3	5	5	5	5
Ham & Cheese	5	3	5	5	5
Turkey	5	5	3	5	5
Salami	5	5	5	3	5
Tuna	5	5	5	5	3

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Ham & Cheese	5	3	5	5	5
Turkey	5	5	3	5	5
Salami	5	5	5	3	5
Tuna	5	5	5	5	3

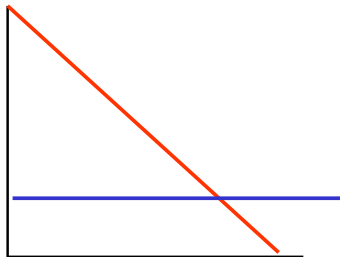
Give Us This Day Our Daily Special

	M	T	W	T	F
Roast Beef	3	5	5	5	5
Ham & Cheese	5	3	5	5	5
Turkey	5	5	3	5	5
Salami	5	5	5	3	5
Tuna	5	5	5	5	3

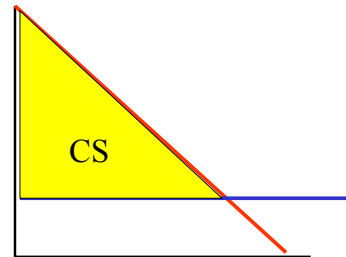
If you don't care what you eat, lunch is \$3.00

If you do care, lunch averages \$4.60

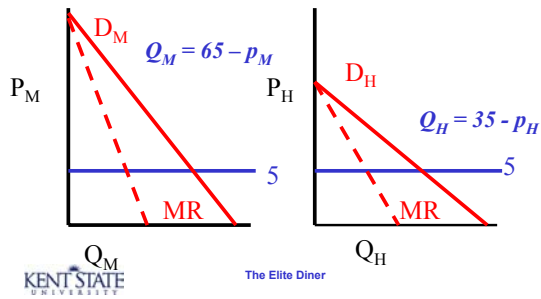
Getting all the Consumer Surplus



Getting all the Consumer Surplus



The Hatfields and McCoy's



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Assume

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

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The Club

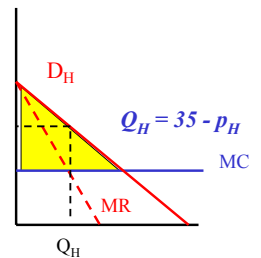
- Suppose the firm offers two choices:
 - Purchase units at a price of \$20
 - Upon payment of a \$775 membership fee, the right to purchase at \$5 each.

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The Hatfields

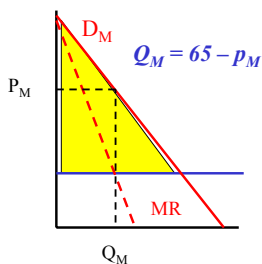
Total CS is
 $(\frac{1}{2})(30)(30) = 450$
 Hatfields will not take the membership plan.
 The \$20 fee is the monopoly price.



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The McCoy's



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

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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.

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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 \$5
- 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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