CONCEPT: PRICE DISCRIMINATION

● A monopolist who charges ________________ to all its customers is a ***single-price monopolist***

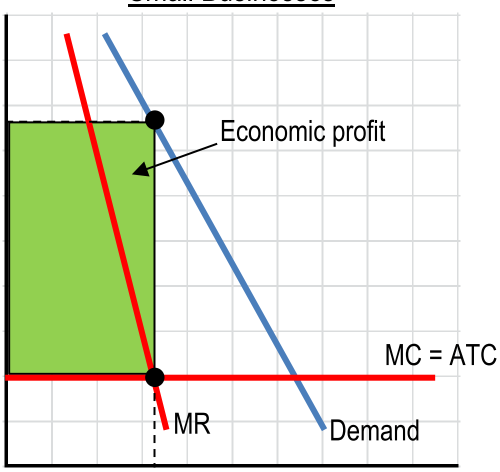
□ ***Price Discrimination*** – selling the ____________ good to customers at ______________ prices

□ To practice price discrimination:

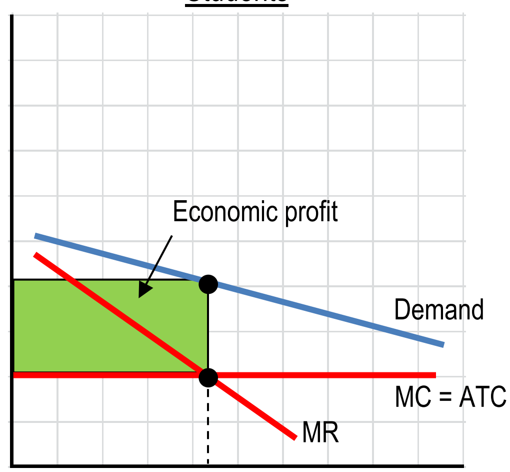
- Market Power: Must be a monopolist, or possess the ability to control ___________________
- Market Segregation: Distinct classes of customers with different willingness to pay
- No resale: Customers cannot resell the product

EXAMPLE: Macrosoft sells its computer software to two groups of buyers: small businesses and students. Students are more price conscious, and thus have a more elastic demand curve. For simplicity, assume ATC is constant and MC = ATC. The monopolist can increase profit by charging a higher price to small businesses and a lower price to students.

Small Businesses

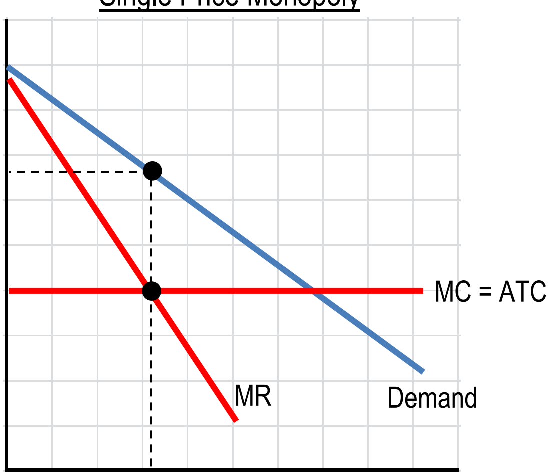


Students

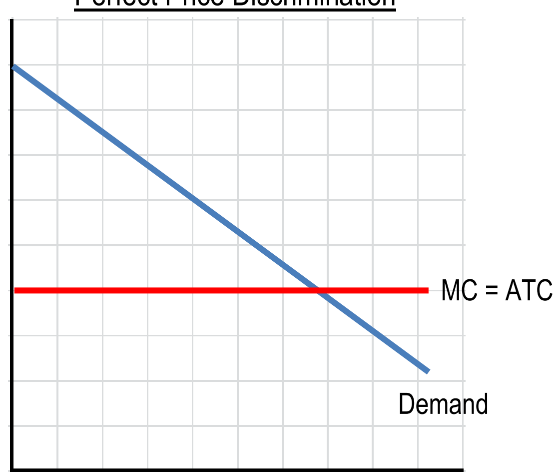


□ ***Perfect Price Discrimination*** – Charging every customer their ________________ willingness to pay

Single Price Monopoly



Perfect Price Discrimination



□ Examples of Price Discrimination:

- Movie Tickets: Cheaper tickets for children; matinee pricing
- Airline Tickets: Higher prices for business travelers; Lower non-refundable fares for leisure travelers
- College Tuition: High tuition prices for rich students; low prices (with aid) for poorer students
- Quantity Discounts: Lower prices on second unit captures lower willingness to pay for extra units
- Discount Coupons: Customers who clip coupons have lower willingness to pay
- Computer Software: Student Edition vs. Professional Edition

PRACTICE: Use the demand schedule to answer the following questions:

Demand Schedule For a Perfectly Price Discriminating Firm								
Price	$8	$7	$6	$5	$4	$3	$2	$1
Quantity	0	1	2	3	4	5	6	7

If the firm's marginal cost is constant at $3.00, output for a perfect price discriminating monopolist is:

a) 2 units b) 3 units c) 4 units d) 5 units

The marginal revenue for the perfectly price discriminating monopolist from the sale of the third unit is:

a) $6 b) $5 c) $4 d) $3

The total revenue for the perfectly price discriminating monopolist from selling five units of output is:

a) $5 b) $15 c) $18 d) $25

If the firm's marginal cost is constant at $3.00, the perfect price discriminating firm will charge each customer:

a) $3 b) $5 c) $8 d) A different price