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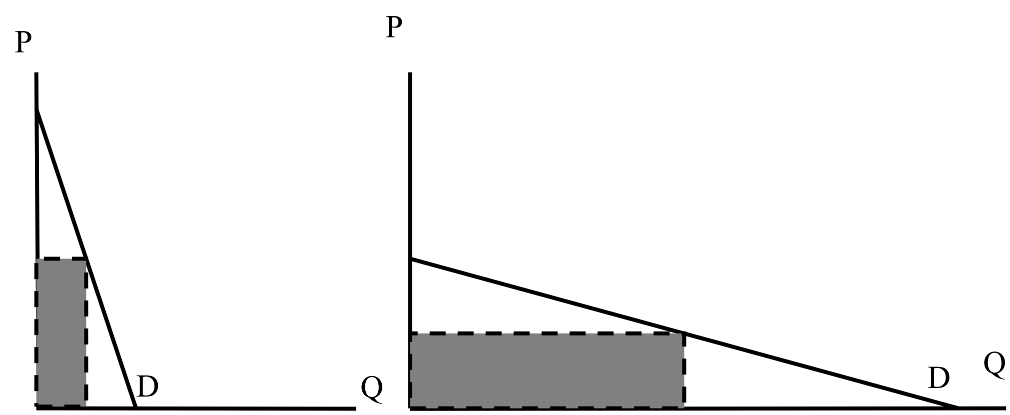
ECON 202—Montgomery College

LECTURE 17: PRICE DISCRIMINATION I

I. Why do we have coupons? Why not just have sales?
   a. Do a particular type of person use coupons?
   b. Coupons are an example of *price discrimination*—when a seller charges different prices of the same good or service

II. Elasticity
   a. The most intuitive type of price discrimination is when two different types of customers get charged a different price for the same good.
      i. The firm "segments" the market into two markets: one elastic demand curve and one inelastic demand curve
   b. For example, buying a plane ticket today for a flight today versus buying today for a flight next month.



III. Price discrimination requirements
   a. *Market power*: We'll discuss this in more detail later in the course but the basic idea is that there aren't lots of close substitutes for what the firm's selling. Otherwise, competition would undercut the high price the firm charges to inelastic customers.
      i. Remember, the more substitutes there are, the flatter (more elastic) the demand curve is.
   b. *Prevention of resale*: the product cannot be easily resold; otherwise the discounted customers will turn around and sell it to others at a profit.
      i. *Arbitrage*—buying low and then selling high—prevents price discrimination from working.

c. *Distinguishableness*: there must have a way to determine who should be charged which price.
d. *Uniform cost*: the cost to bring the item to market cannot change; otherwise it's just two different prices for two different products.
e. Other Examples
    i. Surge pricing, airplane tickets, and AIDs medication (high price in Europe and low price in Africa)