

11.63 - PRICE DISCRIMINATION

11.63- Evaluate how firms use price discrimination and how this affects profits, surplus, and deadweight loss.

By: Carter Greene

KICKOFF:

- ❖ Pick up a handout and scantron on your way in and complete the handout for your K0
 - Elasticities, Revenues, and Monopolies
- ❖ **Roll Call:** Bagels or Donuts?



ANNOUNCEMENTS:

- ❖ **2/13**- Next Quiz
- ❖ **2/24**- Unit 5 Test
 - Market Structures
 - Subject to change
- ❖ 90 minute classes this week
- ❖ Iowa Caucus

QUIZ:

- ❖ 16 Questions
- ❖ 20 minutes
- ❖ ABSOLUTLEY NO TALKING EVEN WHEN YOU'RE DONE
- ❖ When you are finished begin researching:
 - What is price discrimination
 - How do different companies price discriminate?

INTRODUCTION TO PRICE DISCRIMINATION - FROM A BRITISH DUDE



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PRICE DISCRIMINATION

- ❖ Charging different customers, different prices, based on their willingness to pay
 - Practiced in all forms of imperfect competition
 - What are some examples?
- ❖ Perfect-price discrimination- charging each customer the maximum amount they are willing to pay

PRICE DISCRIMINATION STRATEGIES:

- ❖ Advanced vs. last second purchasing-
 - Cheaper to buy in advance
- ❖ Volume discounts-
 - lower price per good with larger quantity purchased
- ❖ Two part tariff-
 - Annual fee plus price of product

HOW TO DETERMINE WHO TO CHARGE WHAT?

- ❖ Those with more inelastic demand may be charged more
 - They don't have a choice so will pay most prices
- ❖ Those with more elastic demand may be charged less
 - Have more alternatives or simply won't purchase item

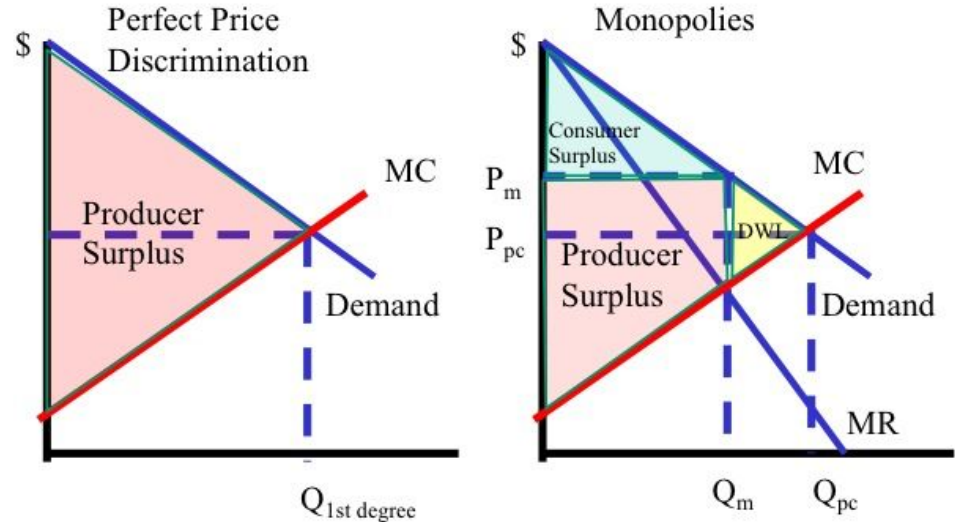
4 CONDITIONS FOR PRICE DISCRIMINATION:

- ❖ The consumers within the market can be separated based off of elasticities of demand
- ❖ No resale opportunities
- ❖ Price difference isn't based off of cost difference
- ❖ Firm is a price maker

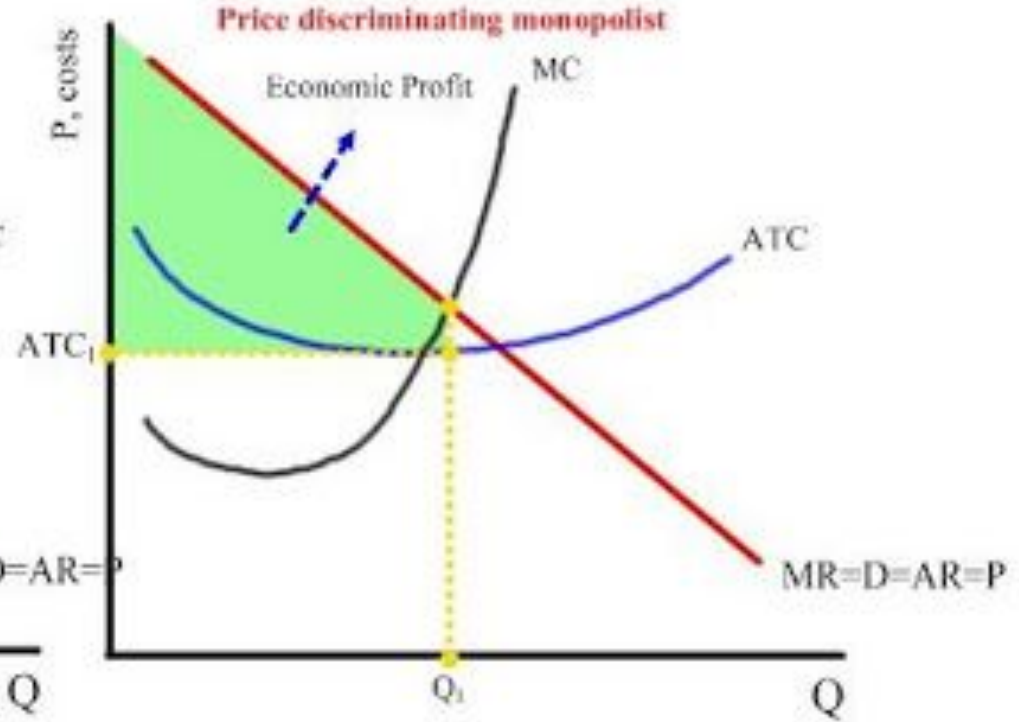
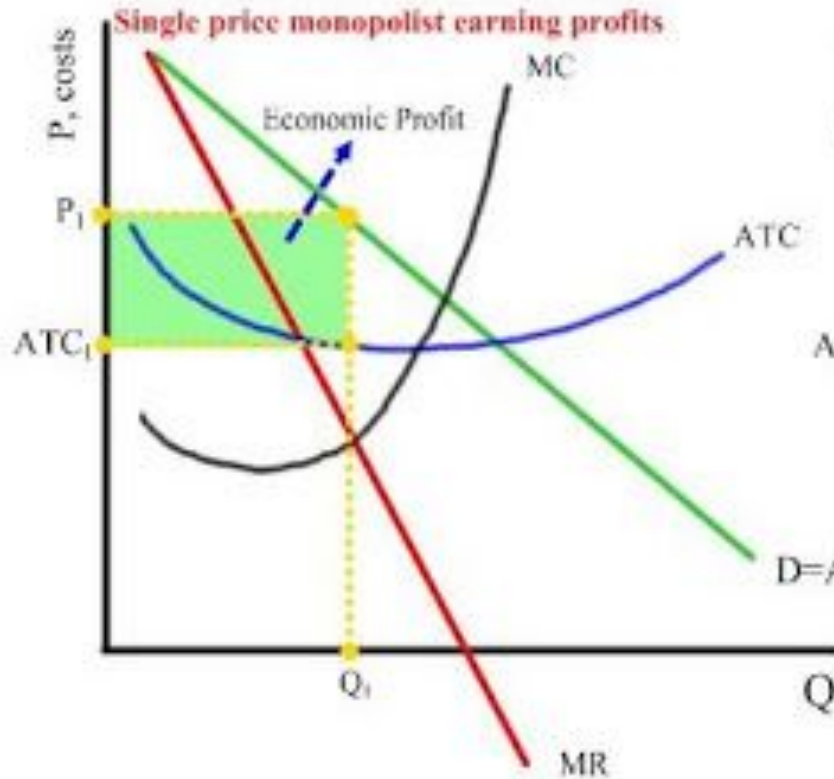
PERFECTLY PRICE DISCRIMINATING MONOPOLIST- EFFICIENCY

- ❖ $MR = D = AR = P$
again!!!
- ❖ Allocatively
efficient quantity
is sold
 - No DWL
- ❖ Consumer surplus
is eliminated
- ❖ Producer maximizes
producer surplus
 - And profits

First Degree or Perfect Price Discrimination



SINGLE PRICE MONOPOLIST V. PRICE DISCRIMINATING- PROFIT



ACDC - SINGLE PRICE V. PRICE DISCRIMINATING MONOPOLIST



PRICE DISCRIMINATING MONOPOLY PRACTICE

- ❖ Working with your partner, complete the handout on perfectly price discriminating monopolist that you picked up on the way in
- ❖ Check with me when you are finished to see how you did
- ❖ If you finish early:
 - Help others around you who are struggling
 - Read the textbook
 - Module 63 today, 64 on Thursday

IOWA CAUCUS- RESULTS DELAYED

<https://www.msnbc.com/morning-joe/watch/technical-glitches-delay-iowa-caucus-results-78072389726>

- ❖ What do you think is the significance and what are some long-run ramifications of this delay in results?

CLOSURE