Econ 121 review

April 13 2006

Professor Joseph Farrell

Price discrimination

- 1st degree or "perfect"
  - Maximizes total surplus but gives it all to seller
  - Requires that seller knows buyers' demands
  - Then, doesn't require separate incremental price for each unit
    - can achieve it with simple two-part tariff
    - Marginal price = MC; fixed fee extracts surplus
    - Attractive welfare recommendation even if not most profitable

Price discrimination by group

- Can price separately to identifiable types or groups of buyers
  - No arbitrage
    - Semi-identifiable buyers
  - No "cream-skimming" competition
    - First-class airlines
    - Telecommunications
  - Lerner equation for each group/type

PD with imperfect competition

- Lerner equation based on residual demand
- Competitively vulnerable customers get the low prices—not so Ramsey-like
- Nondiscrimination as consumer policy?
  - EchoStar-DirecTV merger

PD through self-selection

- Recall diagrams from a week ago
- Algebraic analysis
  - "High type" gets served efficiently
  - "Low type" gets package biased towards being *unappealing* to high type
    - Often, unappealing even to low type
    - French railroad carriages
    - Stock-market quotes

Pricing multiple goods

- Promote complements
  - FAUDNC etc
  - Lexmark and aftermarkets
  - Supermarket parking and milk
  - TV, radio, newspapers…
- Limit cannibalization
  - Merger analysis
  - Drug reimportation