Price Discrimination under Monopoly

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Outlines of topic:

- Price Discrimination
- Conditions of Price Discrimination
- Price Discrimination in action
- Degrees of Price Discrimination

Price Discrimination

- **Price Discrimination** occurs when a business charges a different price to different group of consumers for the same good or services.
- **Examples:**

1. **Occupational Discounts:** this price discrimination is present when individuals receive certain discounts based on their occupation.
2. **Time of Purchase:** that price discrimination we get with the help of time in some conditions.

and many other examples are also there.

Conditions for Price Discrimination

- ***Firms must have sufficient monopoly (market) power:***

Monopolists always have pricing power – price makers not takers

- ***Identifying different market segments:***

Consumers with different price elasticities of demand

- ***Ability to separate different groups:***

Requires information / sufficient market intelligence.

- ***Ability to prevent re-sale(Arbitrage):***

No secondary markets where arbitrage can take place at intermediate prices e.g. Limiting sales, age-restrictions, ID cards.

Price Discrimination in Action

1. Market Haggling.
2. Mobile phone contracts / tariffs
3. Taxi fares at peak times of the day
4. Hairdresser discounts
5. Educational bursaries

When is Price Discrimination is profitable?

Price Discrimination is profitable only when the percentage change in surplus associated with a commodity upgrade is increasing the consumer willingness to pay, i.e. total consumer's willingness to pay less the firms costs.

When Price Discrimination is possible:

- Nature of commodity
- Distance of two markets.
- Ignorance of consumers.
- Governmental regulation.
- Geographical Discrimination
- Difference in elasticity of demand
- Artificial difference between commodities.

Types of Price Discrimination

- First degree Price Discrimination.
- Second Degree Price Discrimination.
- Third Degree Price Discrimination.

First Degree Price Discrimination

- It isthe practice of charging each consumer the maximum amount he/she is willing and able to pay.
- **First Degree Price Discrimination** occurs when each unit of output is sold at a different price such that all consumer surpluses go to the seller.
- It is also known as *Perfect Price Discrimination.*
- Make consumers pay the maximum amount for the same thing for which other is giving less amount.
- Consumer suplus is taken by the supplier.

Second Degree Price Discrimination

- In this prce varies according to quantity sold.
- When large number of quantity is sold then the unit price of the commodity is low and if less number of quantities is sold then the unit price is higher for the same quality of the goods and services.
- It is also known as *Economies of Scale*.
- <u>Example</u>: when you buy 1 kg apples , you will cost more amount than when you buy whole box of apples.
- It is mostly useful for industrial people but not for a common person.

Third Degree Price Discrimination

- Price varies by consumer segment.
- **Third Degree Price Discrimination** occurs when different prices are charged to groups of buyers.
- It can seem unfair to pay more than somebody else for the same good.
- Some suffers and some are able to afford to buy.

THE END

THANK YOU