

## Section 5: Price discrimination

### Disadvantages

- allocative inefficiency as some consumers are charged higher prices
- Inequality widens for low income earners in the inelastic market segment
- Anti-competitive pricing, as low prices in the elastic market drives out competitors

### Examples

- price of coffee at different time of the day
- prices for different people: students, pensioners
- peak and off-peak tickets
- window cleaner charge more in high income neighbourhood
- Drugs are sold for different prices in different countries

-competitive market process: compete on price and non-price factors e.g product quality

-consumer surplus: difference between total amount consumer is willing to pay compared to the market price

-producer surplus: difference between the price producer are willing and able to supply and the price they receive

### Conditions

- price-making power
- Market of consumers can be segmented (the more groups the more gains for the seller)
- Firms must prevent seepage where customer should be prevented from re-selling

### First degree(perfect price discrimination)

- all individuals are charged the max price they are willing to pay
- cost of getting this information and preventing seepage is very high
- not common form of PD
- All CS that existed turned into revenue

### Second degree(excess capacity pricing)

- Bulk buying, peak and off-peak time tickets, spare rooms in hotel
- used in wholesale markets where lower
- price is charged to purchase large quantities
- Some CS that existed is turned into profit

### Third degree(no EOS so MC and AC are horizontal)

- different market segments are charged different prices
- common: High PED and low PED, different countries, ages, time of purchase
- SP profit earned in inelastic group

### Advantages

- Dynamic efficiency due to greater profit
- EOS
- Some consumer benefit from low prices
- cross subsidization of losses made when charging some consumers low prices
- form of income redistribution- low income consumers pay less while high income consumers pay more for the good

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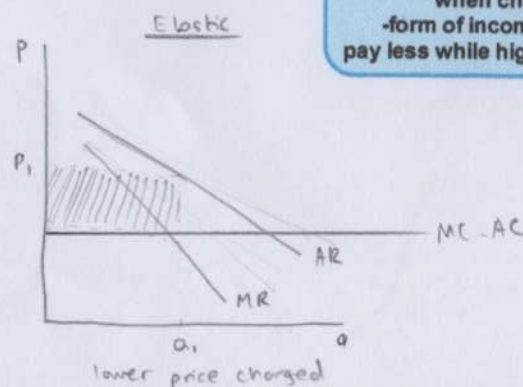
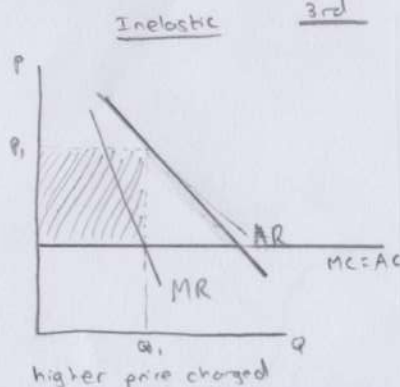
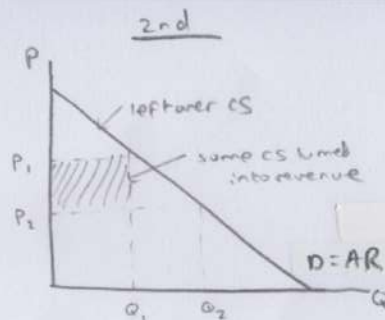
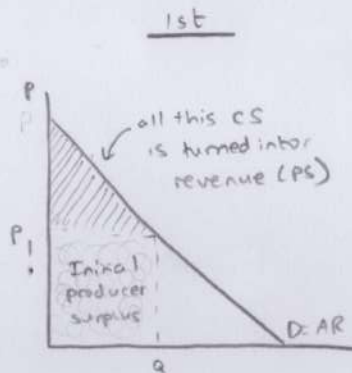
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