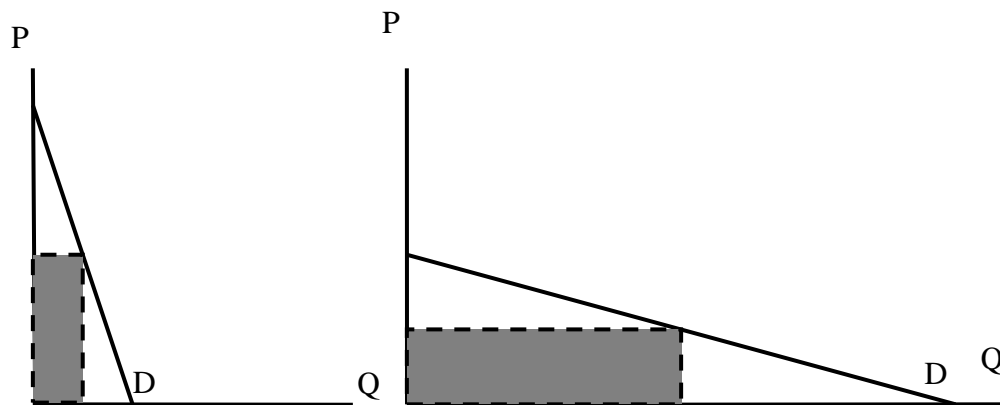


LECTURE 17: PRICE DISCRIMINATION I

- 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. *Distinguishableness*: there must have a way to determine who should be charged which price.
 - 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. *Uniform cost*: the cost to bring the item to market cannot change; otherwise it's just two different prices for two different products.
 - d. Other Examples
 - i. Five dollar foot-longs, airplane tickets, and AIDs medication