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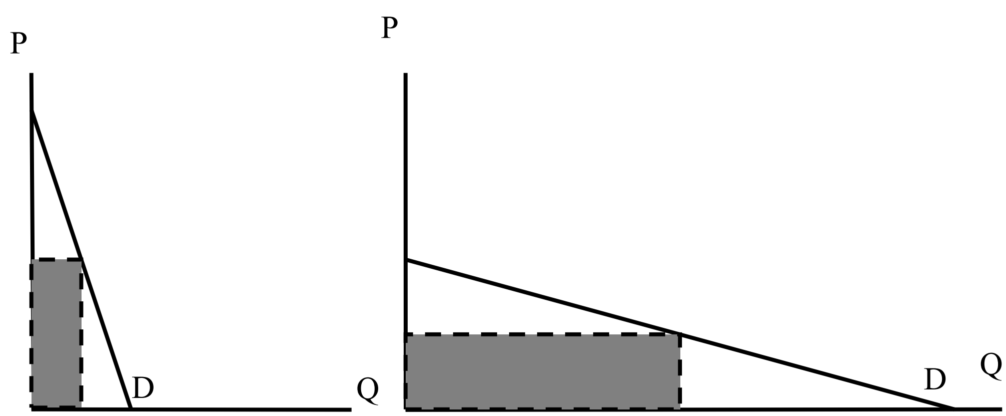
ECON 202—Montgomery College

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. *Market power*:
   b. *Distinguishableness*: there must have a way to determine who should be charged which price.
   c. *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.
   d. *Uniform cost*: the cost to bring the item to market cannot change; otherwise it's just two different prices for two different products.
   e. Other Examples

i. Surge pricing, airplane tickets, and AIDs medication (high price in Europe and low price in Africa)