

PRICE DISCRIMINATION

Price discrimination in monopolies (and other markets) means that the supplier charges different prices for the same product, while the production cost remains the same.

The aim is to make more profit by responding better to the willingness to pay (i.e. taking elasticity into account) of different consumers.

Real-life examples:

Public transport (monopoly): senior citizens pay less

Software: student versions cheaper than professional licences

Mathematical example:

The MOVIE MAX company operates a number of cinemas. On a peak evening, the company sells 5.000 tickets.

1)

BEFORE price discrimination: general ticket price of €15

AC per ticket = €10

Calculate the TP on a peak evening.

$$TR = P * Q = \text{€}15 * 5.000 = \text{€}75.000$$

$$TC = AC * Q = \text{€}10 * 5.000 = \text{€}50.000$$

$$TP = TR - TC = \text{€}25.000$$



2)

We assume that before the price increase, 60% of tickets (3.000) were purchased by adults and 40% (2.000) by young people.

MOVIEMAX wants to increase its profit and is raising the general ticket price on the one hand and introducing a lower price for young people on the other hand.

The price for adults is increased to €18. The price elasticity of their demand for cinema tickets is -0.5.

The price for young people is reduced to €12. The price elasticity of their demand for cinema tickets is -1.5.

Calculate the TP on a peak evening.

Demand from adults after the price increase?

Demand from young people after the price increase?

TP achieved by selling tickets to adults?

TP achieved by selling tickets to young people?

TP achieved on all tickets?

CONCLUSION:

TP WITHOUT PRICE DISCRIMINATION	TP WITH PRICE DISCRIMINATION

Conditions for price discrimination:

- Different willingness to pay among different consumers (market segments)
- No resale between consumers
- ‘Objective demarcation’ of market segments