

Topic: Price discrimination

- **Price Discrimination** is when an identical good or service is sold to different consumers / different markets at varying prices
 - The price difference is not due to the difference in the cost of production. Examples include:
 - Spotify / Netflix charging different rates in different countries
 - Airline charging more nearer departure date
 - A student being charged a lower rate for travel from Cork to Dublin than another passenger
 - Consumers being charged different rates for peak and off-peak travel

Conditions / Characteristic Necessary for price discrimination

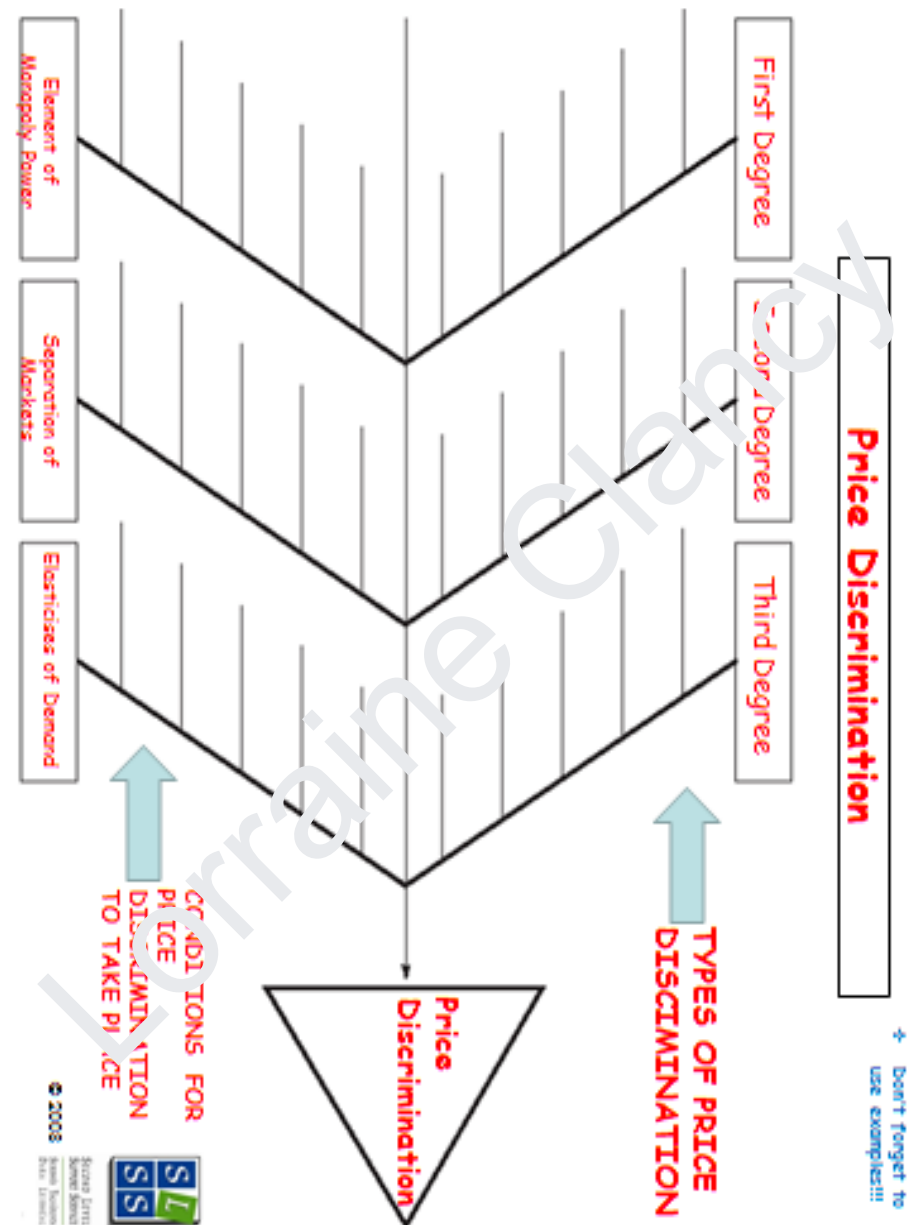
Condition	Explanation
Monopoly Power	<ul style="list-style-type: none"> • A degree of monopoly power is necessary to control price
Separation of markets	<ul style="list-style-type: none"> • The goods bought in the lower priced market cannot be offered for resale in the higher priced market. • If it was not possible to separate the markets then the above would occur until a price difference existed.
Different PEDs	<ul style="list-style-type: none"> • Consumers with the high price elasticity of demand are charged the lower prices for their goods • E.g. students are assumed to have lower incomes and so are not in the position to pay the full price for certain goods and services.
Consumer Indifference	<ul style="list-style-type: none"> • The difference in price may be so small that consumers are indifferent and so don't mind paying the slightly higher price.

Type of Price Discrimination with Examples

Type	Explanation	Example
1st degree	<ul style="list-style-type: none"> A monopolist attempts to remove consumer surplus A monopolist identifies those consumers who are prepared to pay a higher price This type of price discrimination can occur in one-to-one confidential services 	<ul style="list-style-type: none"> Visiting a medical consultant / solicitor
2nd degree	<ul style="list-style-type: none"> A monopolist gives discounts for bulk buying 	<ul style="list-style-type: none"> Night saver electricity Magazine subscriptions 3 for 2 offers
3rd degree	<ul style="list-style-type: none"> Consumers have different PED Consumers with inelastic demand pay a higher price than consumers with a elastic demand 	<ul style="list-style-type: none"> Business air travel v. leisure air travel Special rates / prices for students / old age pensioners

Compare Price discrimination: Perfect Competition v. Monopoly

Perfect Competition	Monopoly
<ul style="list-style-type: none"> Cannot practise price discrimination The firm does not have control over the price it charges - it must accept the market price 	<ul style="list-style-type: none"> Could practise price discrimination It has monopoly power or has control over the price charges or output produced, Can charge different prices to different consumers for the same good



Exam Question: 2024, Q8

Price discrimination remains a popular pricing strategy used by firms worldwide.

(a) Explain, using an example, what you understand by the term price discrimination.

Price discrimination:
Example:

(b) Outline two **characteristics of consumers** that permit price discrimination to take place.

1.
2.

Sample Paper Q

(c) (i) Explain, with reference to consumer surplus, what is meant by the term 'price discrimination'.

(ii) Price discrimination is more prevalent in the services industry. Evaluate this statement, giving **two** relevant examples.

1.
2.