

ECON 200C WI09 PRICE DISCRIMINATING MONOPOLIST

Look at the following table below. The first two columns represent the market demand curve for a particular good. The successive columns show the TR and MR of a monopoly firm that cannot price discriminate and a firm that can discriminate. Assume that the marginal cost of production is \$4.

P=MV	QTY	TR (no discriminate)	MR (no discriminate)	TR (discriminate)	MR (discriminate)
10	1	10	10	10	10
9	2	18	8	19	9
8	3	24	6	27	8
7	4	28	4	34	7
6	5	30	2	40	6
5	6	30	0	45	5
4	7	28	-2	49	4
3	8	24	-4	52	3
2	9	18	-6	54	2
1	10	10	-8	55	1
0	11	0	-10	55	0

Non-discriminating Monopolist

If the monopolist sells one more unit:

- TR (P x Q) rises because Q is getting larger. (output effect)
- Must lower price. TR (P x Q) will fall. (price effect)

The deadweight loss from monopoly stems from the fact that monopolies produce less than the socially efficient level of output.

At what level of output will this monopolist produce? What is the efficient level of output?

Discriminating Monopolist

If the monopolist could perfectly price discriminate (first degree price discriminate/ completely segment market) among the customers' MV, they could charge different prices for the same good.

The DWL loss would not exist if the monopolist could perfectly price discriminate among the customers.

At what level of output will this monopolist produce? What is the efficient level of output?

In reality, first degree price discrimination is difficult. But!

If the costs are low to differentiate consumers, the monopolist can partially segment the market and second degree price discriminate

Examples of 2nd degree Price Discrimination

1. Movie Tickets: Vary ticket prices by time, seniors and children
2. Airline tickets: Vary prices by when one books, and for weekend stays.

Takeaways:

Monopolists set prices, usually result in inefficient amount of output $Q_m < Q^*$. Perfect price discrimination improves on market efficiency.