Microeconomics, Module 12, “Price Discrimination”

Required reading for seventh edition:

(The attached PDF file has better formatting.)

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{The Landsburg textbook is excellent. We say to read certain sections and to skip others. This does not mean that certain sections are better; it means that the homework assignments and exam problems are based on the sections that you must read for this course. Some of the skipped sections are fascinating, but they are not tested.}

This module covers pages 329-341 of Section 10.3. Price discrimination is illegal in the U.S., unless the supplier sets a lower price to meet the price of a competitor or because the cost of servicing a customer are lower than average. In practice, third degree price discrimination is common in many industries.

Jacob: What types of third degree price discrimination are common?

Rachel: Seniors and high school students pay lower prices for train and bus service; students pay lower prices for magazine subscriptions; consumers with coupons pay lower prices for retail goods; and many others.

Jacob: Consumers pay lower prices; why should this be illegal?

Rachel: Some consumers pay lower prices; other consumers usually pay higher prices. The monopolist does not give lower prices to seniors or high school students from altruism. The monopolist gains overall; if seniors pay less, others are usually paying more. It may be that consumers overall gain, but usually some lose.

In addition, the price discrimination is illegal not just because some consumers lose. It is illegal because the U.S. sees discrimination as morally unjust. In part, this stems from the Judeo-Christian foundations of U.S. society; in part, this stems from the post-Civil War realization that slavery and racial discrimination were/are unjust parts of U.S. culture.

Know the definitions of first, second, and third degree price discrimination on the sides of page 331. Know the mathematics of the three types of price discrimination in this section. For third degree price discrimination, understand the relations of demand curves, elasticities, equilibrium prices, consumers’ surplus, producers’ surplus, and profits in the markets for each class of consumers. The same type of problem is in the “concepts and overview” posting, the practice problems, the homework assignment, and the final exam.