**PART 4: PRICE DISCRIMINATION & CONTROL OF MARKET DOMINANCE**

 Pg 23.4.5

14

**The price for all weekly issues of the Economist magazine for a year is $650 if you buy it at the newsstand, $192 for a standard subscription and $130 for a college student subscription. Explain if the cost differences could result in price differentials rather than price discrimination.**

|  |
| --- |
| Revise:  How to identify Price Discrimination?   * Same/identical product * Same/identical costs * But different prices charged for different units purchased or to different consumers.   Objective:  To increase the firm’s profits by extracting consumer surplus and transforming them into extra revenues. It is profitable for the firm because costs remain unchanged.  Forms of Price Discrimination:  It is the practice of making consumers pay different rates/prices for the same quantity purchased (i.e. 3rd degree) or different rates for different quantities purchased (i.e. 1st or 2nd degree)  Conditions for Price Discrimination:   * Monopoly power *(Note: This is different from being a monopoly.)* * Segregate the market to prevent seepage * Different price elasticity for different markets.   Costs and benefits of Price Discrimination:  (-): Price discrimination is generally considered an unfair monopolistic practice detrimental/harmful to consumers welfare if the objective to jack up the firm’s profits.  (+): In some instances, it might be beneficial if the objective is to provide a better service to consumers (e.g. to provide bus services along unprofitable routes or to provide medical services to poor patients or bus concessions to non-working commuters such as school children, senior citizens).  **Suggested Answers:**  No it is not a clear cut case of price discrimination  The difference between the newsstand cost and the standard subscription rate reflects at least in part the higher cost of selling at a newsstand (such as rental and manpower costs) rather than mailing the magazines directly to customers. Thus due to difference in costs led to price differentials and not price discrimination.  Yes, it could be price discrimination   * Assuming the rental costs of newsstands and costs of making delivery to subscribers are roughly the same (i.e. difference is negligible) it can be argued that this could be a case of price discrimination. *Note: Even if there is a difference, it will not be so great to warrant such a large price difference.* * For magazines it is very common to charge subscribers a lower/better rate because most consumers do not like to be tied to a contract for a fixed copies and prefer to have choices – demand is price elastic; also to pay close to $200 at one go compared to say $10 weekly, it forms a larger proportion to income. So a lower price will increase quantity demanded more than proportionate. * For individual copies purchased at newsstand, the consumer buys only if he/she is interested in the content for that particular issue. And if that’s the case, that magazine will be a ‘must have’ and $10 a copy is of a smaller proportion to income, therefore demand is price-inelastic and price is higher.   Synthesis:  There are of course other reasons why subscribers enjoy a lower rate. Sellers know for certain the quantities to print which saved costs of over-printing.  At the end of the day, this example illustrates the difficulty in drawing a clear line between genuine price discrimination and non-price discrimination. |

 Pg 23.4.5

15

**There is also a price difference between the standard subscription rate and the student subscription rate for the Economist that are both delivered through mail. Explain if this is a form of price discrimination.**

|  |
| --- |
| Yes:   * The price difference between the standard subscription rate and the student subscription rate for the Economist reflects price discrimination because the two subscriptions are identical in every aspect including cost except in price. * Presumably students are less willing to pay for subscription (demand is more price elastic) than the working adult. This could be due to the student subscription takes up a larger proportion of income than a working adult.   No:  The standard subscription comes with online user ID and password to access the Economist online version, unlike that of student subscription package. So the ‘product’ may be considered different. |