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**Case Study**

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**Introduction**

Price discrimination is the practice of setting more than one price for the same product (service) when these price differences are not justified by differences in costs. The usual practice of price differentiation depending on the quality of a product or service should be distinguished from price discrimination. It should also be noted that price discrimination is possible only in the markets of imperfect competition when the manufacturer (seller) has monopoly power (in one degree or another controls pricing and production). Perfect competition inevitably leads to the establishment of a single price for the same product. In practice, the model of perfect price discrimination is somewhat utopian, since for this the seller must know the subjective price of each particular buyer. However, examples of the application of this pricing model can be found in individual business activities. For example, a private psychologist (or a lawyer, designer, tutor , etc. ), having information about the incomes of his clients, may assign different tariff plans for the services provided to them (Maxwell, 2007).

**Examples of price discrimination**

One of the world's most famous lingerie selling companies, Victoria's Secret, has turned out to be an occasional pioneer in the field of dynamic prices. In 1996, a marketing campaign was created on the occasion of the release of a new collection of linen, while different segments of consumers received in the mail catalogs with different prices for the same goods (Armstrong and Vickers, 2001).

One very attentive client, who considered the company's actions illegal, accused Victoria's Secret of fraud, but, to her great regret, lost the legal process with a bang, as "the use of flexible pricing strategy in retail is completely legal." Moreover, the lawsuit against the plaintiff was sanctioned for filing a “frivolous lawsuit”. Especially popular among retailers is the second-degree price discrimination model. For example, in stores Men's Wear house, a leader in the specialized retail of men's clothing, you can find the following proposal: one suit for $ 299, two suits for $ 500.The pharmaceutical company GOLDPHARMA also practices this approach: 24 tablets are sold for $ 29.08, and 96 - for only $ 60.15.

When it comes to price discrimination of the third degree, most often I recall special discounts for pensioners and students. :) In fact, there are much more examples of using this strategy:

Customers of the online store of medical cosmetics Drugstore.com have the opportunity to purchase a GOLD CARD discount card on all products of GNC, the world's largest manufacturer of natural dietary supplements;

Pharmaceutical company Fraser uses geographic price discrimination: for example, Canadians can buy 10 tablets of Viagra at a price of $ 69.95, while on the websites of American online stores the company has a completely different price - $ 103.99.

*“The Museum of Modern Art in New York City announced that it will raise ticket prices for adults from $20 to $25, beginning September 1st, making it the most expensive museum in the city. While the Metropolitan Museum of Art also hiked suggested admission fees to $25 earlier this summer, museum-goers could conceivably pay less if they wished — the price is suggested, but not required. The hike will make the entrance to MoMA seven dollars more expensive than the next priciest museums in NYC — the Whitney, which asks $18 dollars for entrance, and on the Upper East Side, both the Neue Gallerie and the Guggenheim charge $18. Further downtown, the New Museum asks for $12, while the Brooklyn Museum’s tickets go for $10”.*

This group includes those museums that announce a certain price, but it is not obligatory to pay. For example, a ticket to the Metropolitan Museum of Art (The Metropolitan Museum of Art) costs $ 25, but you can pay much less. The same applies to the American Museum of Natural History, the same one where the film “Night at the Museum” was shot (2006). Not only have the museums of Manhattan fallen into this category. For example, (Brooklyn Museum), (The Queens Museum), the Staten Island Museum (Staten Island Museum) can be visited by paying as much as you see fit. If you like modern art, visit the New Museum on Thursday from 19:00 to 21:00, and the Museum of Modern Art on Friday after 16:00, which will save you $ 25. If the Museum of Modern Art is not enough for you, go to the Whitney Museum of American Art on Friday after 18:00. If you agree that “the most important art is cinema,” then your path lies in Astoria, a region of Queens. There is the Museum of the Moving Image, where you will see costumes from the movie “Moulin Rouge!” And others, make-up, scenery, cameras, you can try yourself as a sound engineer or animator. If you want to save $ 12, visit the museum on Friday after 16:00 (Varian, 1989).

**Consumer surplus**

“Second-degree price discrimination” is the sale of products in separate batches with the establishment of different prices on them. “In real life, price discrimination” of the second degree is most often used in wholesale trade. The lowest price is set for goods purchased by large wholesale. When purchasing the same product in medium and small lots, the price increases. As a result, the relationship between sales and the monopolist’s total revenues is non-linear. In this case, the monopolist selects only part of the consumer surplus.

**Producer surplus**

*“The producer surplus is the difference between the market price and the lowest price a producer would be willing to accept. For producers, a surplus can be thought of as profit, because producers usually don't want to produce at a loss”. The two together create an economic surplus”.* The ideal for the monopoly is to be able to charge everyone the highest price they are willing to accept, with marginal cost as the lower threshold. In this extreme case of "perfect discrimination", the producer can appropriate the entire surplus of the consumer. The profit of the monopolist is then equal to the total surplus. This result is only possible if the monopolist is able to find the appropriate means to discriminate between requests without being justified by a cost discrepancy. Its problem is knowing how to practice differentiated prices according to the customers, the quantities bought or the markets, whereas the good or the service remain the same.

Perfect price discrimination is an idealized concept, as the word "perfect" speaks about, but it is of theoretical interest because it gives an example of a mechanism for placing resources that ensures the achievement of efficiency according to Pareto, other than a competitive market. There are very few examples of perfect price discrimination in life. The most appropriate would be, say, this: a doctor who practices in a small town and assigns different prices to his patients depending on their ability to pay (Phlips, 1983).

**References**

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