

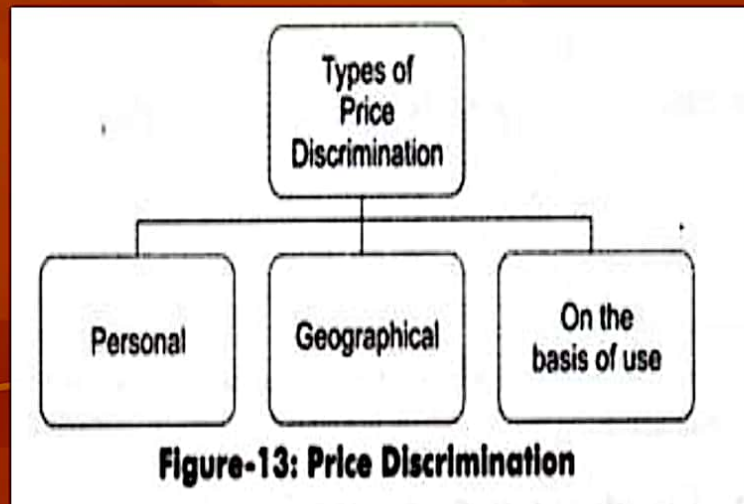
PRICE DISCRIMINATION UNDER MONOPOLY

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Notes for BA part 1

Concept of Monopoly Price Discrimination

- In monopoly, there is a single seller of a product called monopolist. The monopolist has control over pricing, demand, and supply decisions, thus, sets prices in a way, so that maximum profit can be earned.
- The monopolist often charges different prices from different consumers for the same product. This practice of charging different prices for identical product is called price discrimination.
- According to Robinson, "Price discrimination is charging different prices for the same product or same price for the differentiated product."

Types of Price Discrimination



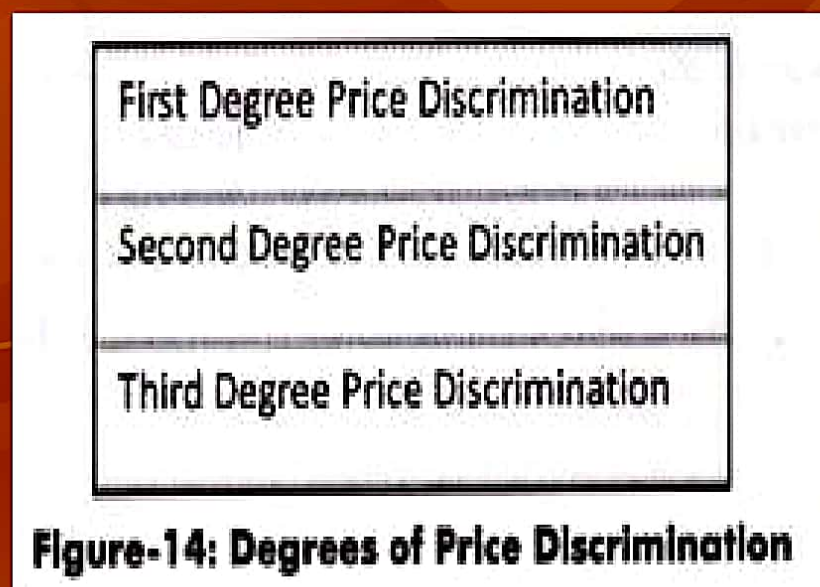
Indivisible basis of Price discrimination

- **. Personal**
- Refers to price discrimination when different prices are charged from different individuals. The different prices are charged according to the level of income of consumers as well as their willingness to purchase a product. For example, a doctor charges different fees from poor and rich patients.

Price Discrimination on Geographical and Use of the

- Refers to price discrimination when the monopolist charges different prices at different places for the same product. This type of discrimination is also called dumping.
- Occurs when different prices are charged according to the use of a product. For instance, an electricity supply board charges lower rates for domestic consumption of electricity and higher rates for commercial consumption.

Degree of price discrimination



First degree of price discrimination

- refers to a price discrimination in which a monopolist charges the maximum price that each buyer is willing to pay. This is also known as perfect price discrimination as it involves maximum exploitation of consumers. In this, consumers fail to enjoy any consumer surplus. First degree is practiced by lawyers and doctors.

Second Degree of price discrimination

- Refers to a price discrimination in which buyers are divided into different groups and different prices are charged from these groups depending upon what they are willing to pay. Railways and airlines practice this type of price discrimination
- For example dividing buyers into different groups

Third degree of Price discrimination

- Refers to a price discrimination in which the monopolist divides the entire market into submarkets and different prices are charged in each submarket. Therefore, third-degree price discrimination is also termed as market segmentation.
- In this type of price discrimination, the monopolist is required to segment market in a manner, so that products sold in one market cannot be resold in another market. Moreover, he/she should identify the price elasticity of demand of different submarkets. The groups are divided according to age, sex, and location. For instance, railways charge lower fares from senior citizens. Students get discount in cinemas, museums, and historical monumements

Condition for price discrimination

- **Existence of Monopoly:**
- Implies that a supplier can discriminate prices only when there is monopoly. The degree of the price discrimination depends upon the degree of monopoly in the market.
- **Separate Market:**
- Implies that there must be two or more markets that can be easily separated for discriminating prices. The buyer of one market cannot move to another market and goods sold in one market cannot be resold in another market.
- **No Contact between Buyers**
- Different elasticity of demand for buyers

Benefits of price discrimination

- **Following are some of the advantages of price discrimination:**
 - i. Helps organizations to earn revenue and stabilize the business
 - ii. Facilitates the expansion plans of organizations as more revenue is generated
 - iii. Benefits customers, such as senior citizens and students, by providing them discounts

Demerits

- **Some of the disadvantages of price discrimination as follows:**
 - i. Leads to losses as some consumers end up paying higher prices
 - ii. Involves administration costs for separating markets.