Monopoly Behavior

SALE PRICE

- Price discrimination: first, second and third degree.
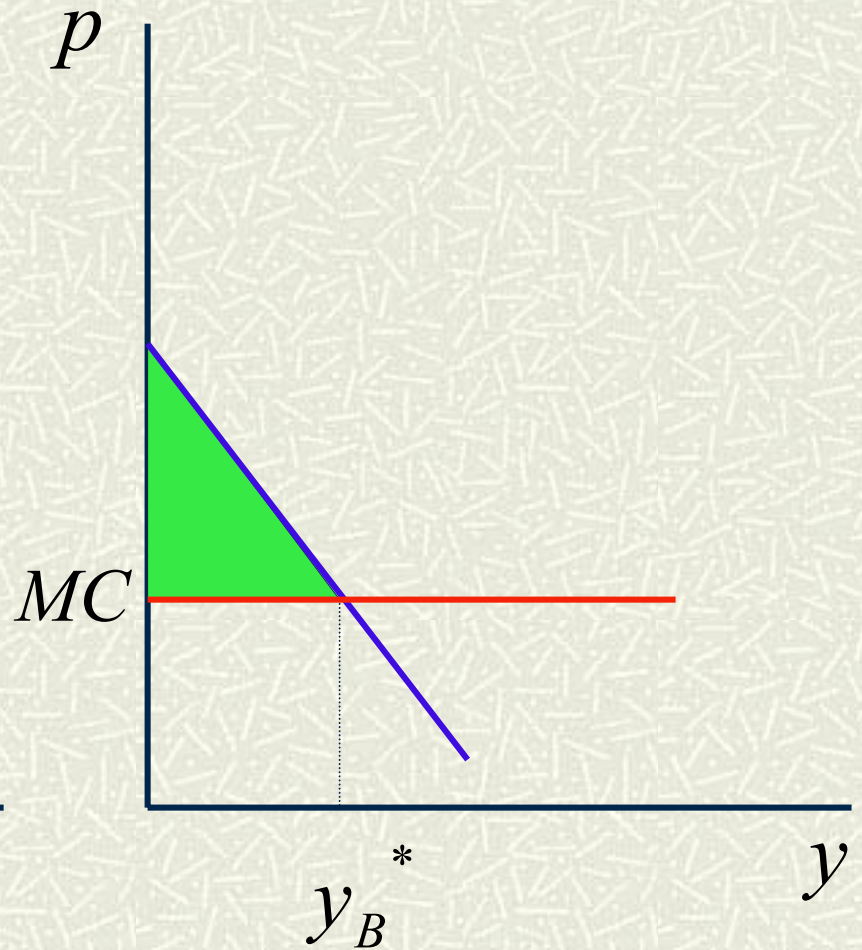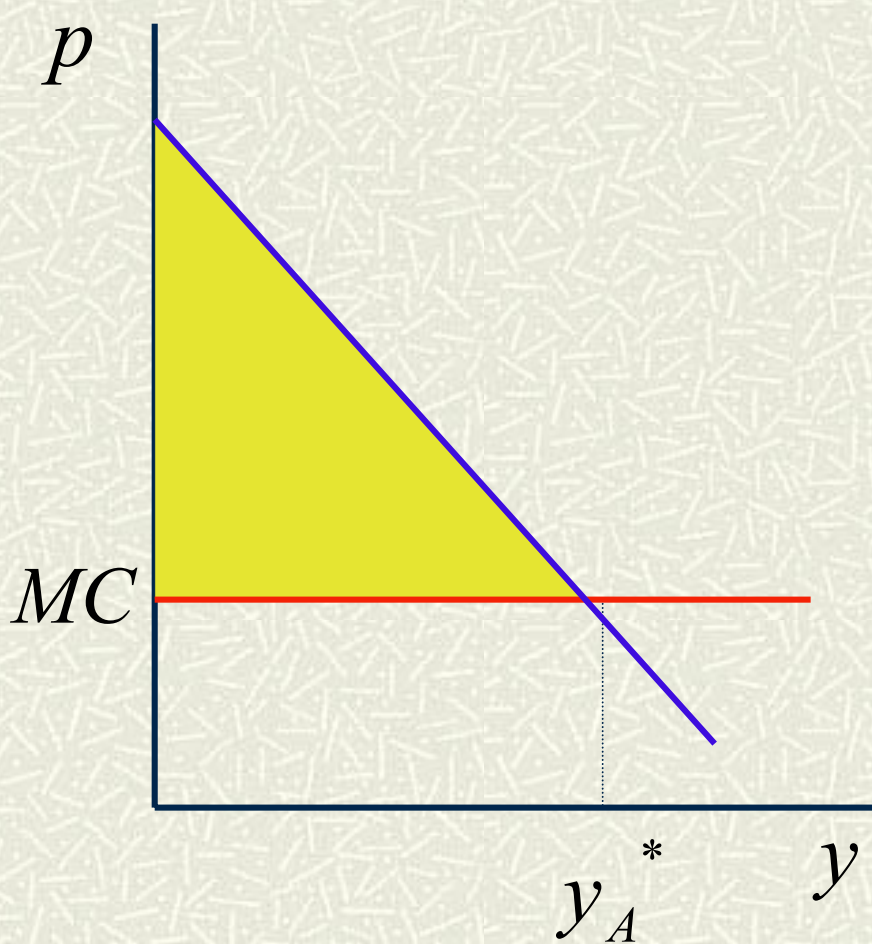- Bundling.
- Two-part tariffs.

First-Degree Price Discrimination

Monopolist sells different units of output for different prices, and prices may differ from person to person.

Idealized concept.

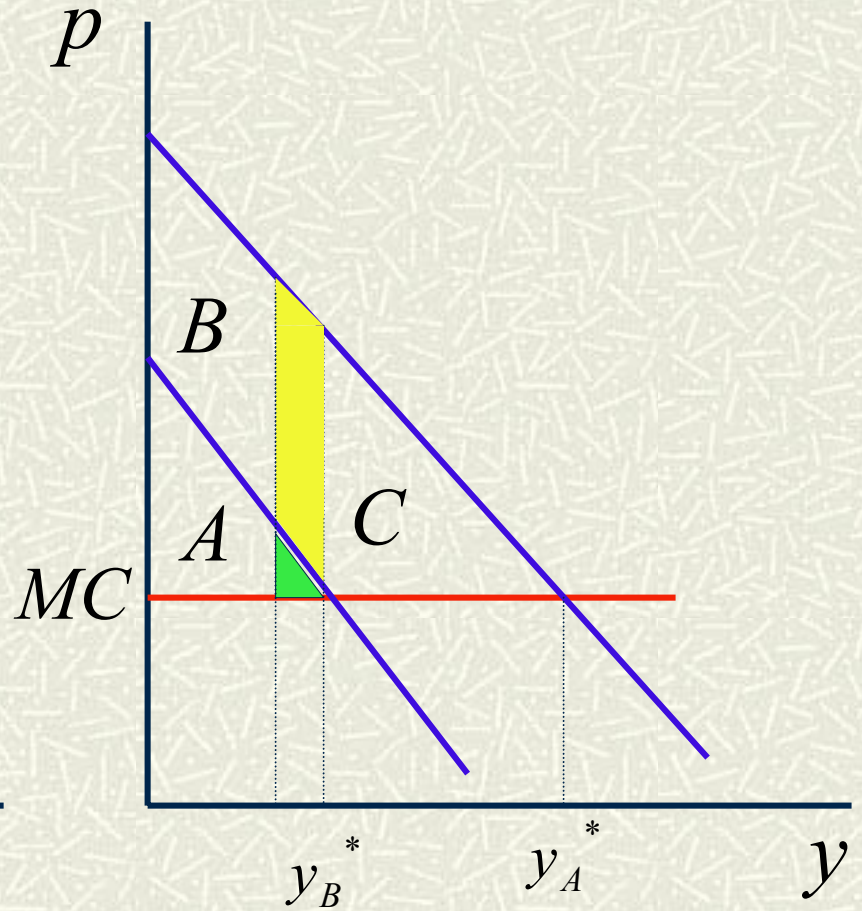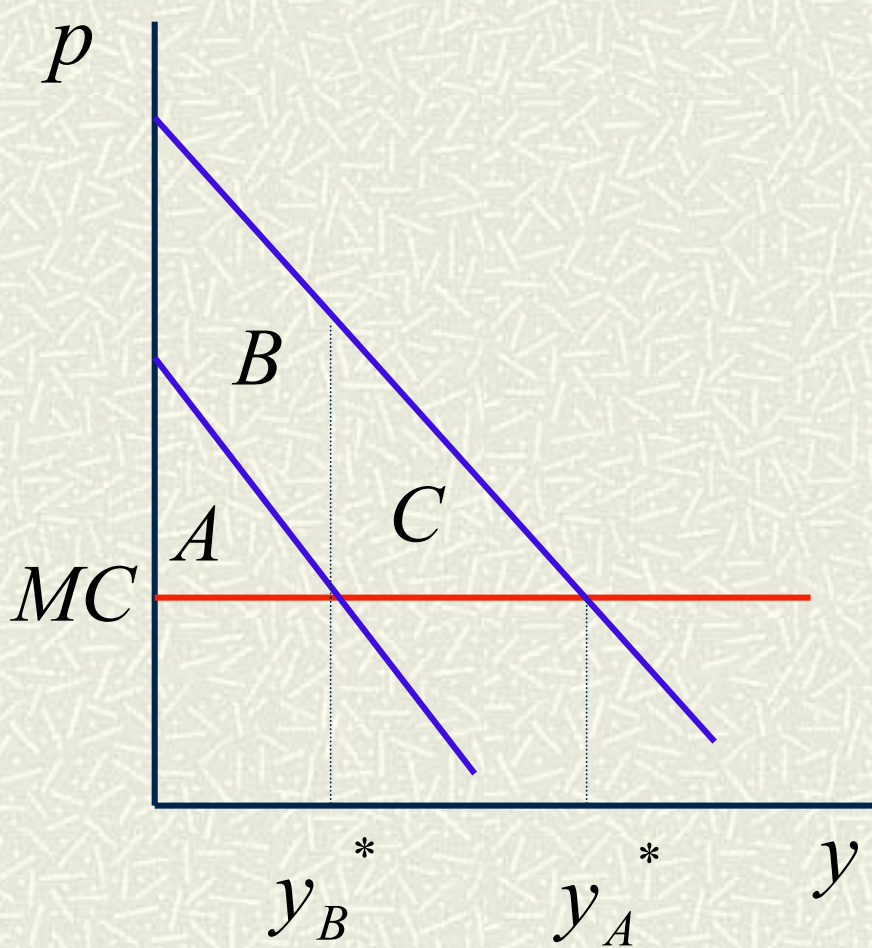# First-Degree Price Discrimination

Second-Degree Price Discrimination

Monopolist sells different units of output for different prices, but each person that buys the same amount pays the same price.

E.g.: bulk discounts (public utilities)

Second-Degree Price Discrimination

Second-Degree Price Discrimination

- In practice monopolist adjusts quality rather than quantity of the good.
- Idea: reduce the quality offered to the low-end of its market, to prevent high-end customers from switching end get more of their surplus.
- E.g.: "unrestricted airfare" for business travel and "restricted airfare" for non-business.
- E.g.: First-class and coach class.

Third-Degree Price Discrimination
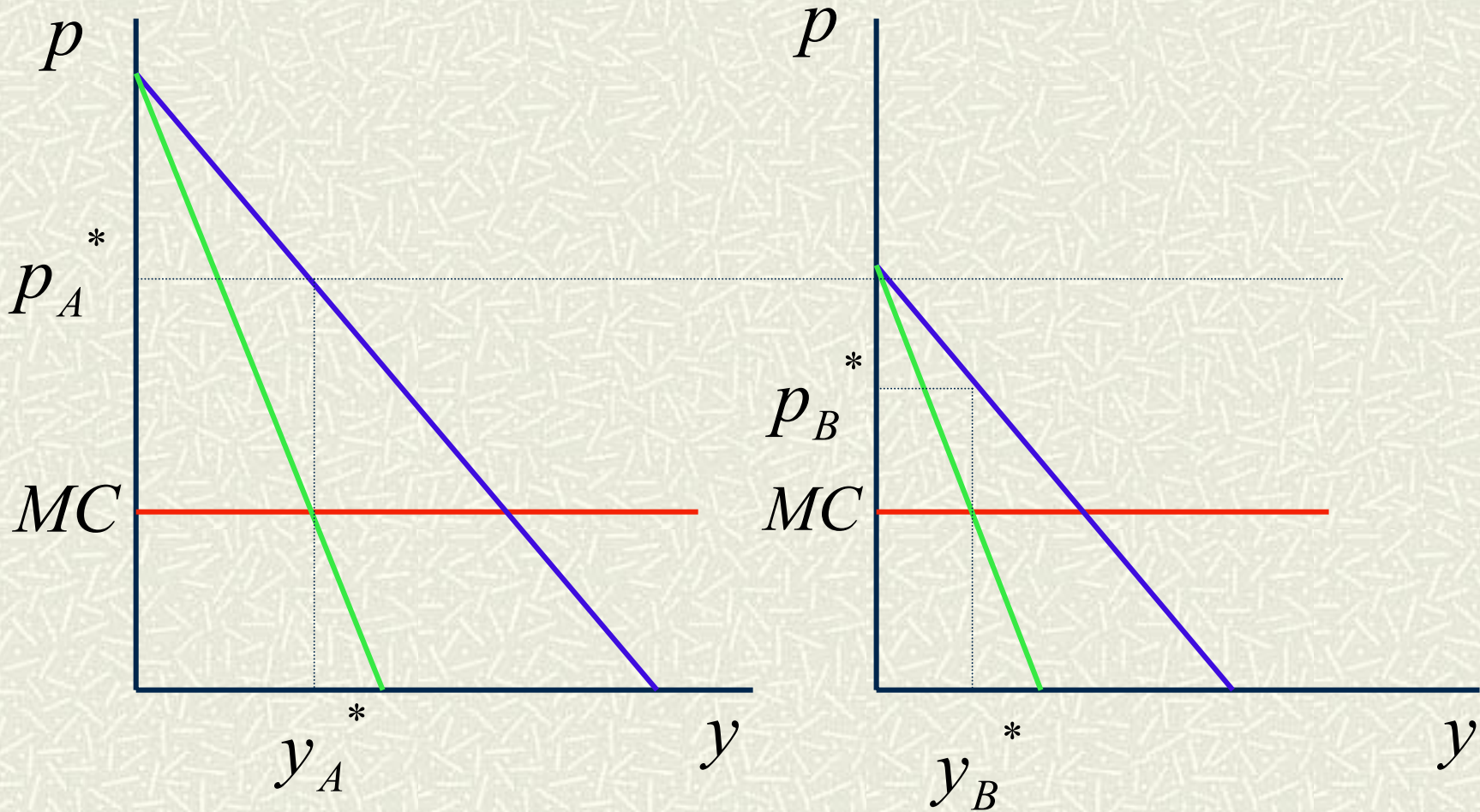
Monopolist sells different units of output for different prices, but every unit of output sold to a given person sells for the same price.

E.g.: senior citizens' and students' discounts.

Third-Degree Price Discrimination

p

p

p_A^*

p_B^*

MC

MC

y_A^*

y

y_B^*

y

Bundling

Packages of related goods offered for sale together:

- Software (spreadsheet, word processor,…) In 1993 around 50% of Microsoft applications software was sold in bundles.
- Magazines subscriptions

Bundling: Example

Type of consumer	Word processor	Spreadsheet
Type A consumer	$120	$100
Type B consumer	$100	$120

Bundling: Example

- Marketing policy 1: sell items separately: best to charge $100 each software. Monopolist gets $400.

- Marketing policy 2: bundle word processor and spreadsheet and sell each bundle for $220. Monopolist gets $440.

Bundling: Intuition

- Individual with **lowest** willingness to pay determines market price when an item is sold to different people.

- Bundling allows monopolist to reduce the dispersion in willingness to pay, and thus to charge a higher price for the bundle of goods.

Two-Part Tariff

- Example: owners of amusement parks set one price for tickets to get into the park and another for the rides.

- How are these prices related?

Two-Part Tariff

p

p^*

MC

y^*

$number of rides$