Price Discrimination

1 Consumer surplus

The market price is the same for all buyers, although some buyers would be able and willing to pay more. Thus, a **consumer surplus** exists.

2 Price discrimination

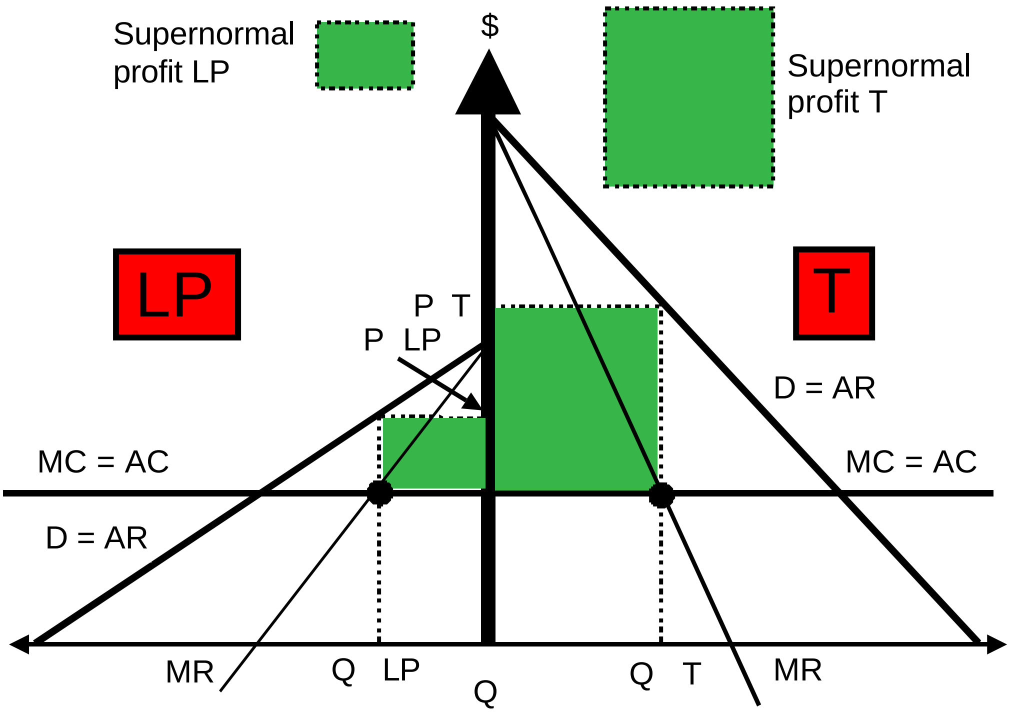
Sellers would like to reduce the consumer surplus totally or at least partially by charging **different customers different prices for the same good or service.** This is called **price discrimination.**

3 Example of a price discrimination

- A theme park charges two different entry prices, a higher price for tourists (T) and a lower price for local people (LP). The price for LP is lower because they are possibly poorer than T or they may have visited the park many times before.

- Marginal costs are the same for all visitors and they are constant. By introducing two different prices, the park can get **higher total profits.**

- **Price discrimination graphically**



Abbreviations:

D =	Demand
P =	Price
Q =	Quantity
AR =	Average revenue
MC =	Marginal cost
AC =	Average cost
MR =	Marginal revenue

4 Requirements for price discrimination

- Seller being a pricemaker (for example a monopolist)
- Dividing consumers into different price classes facing similar price elasticities of demand
- Avoiding that low-price consumers resell to high-price consumers