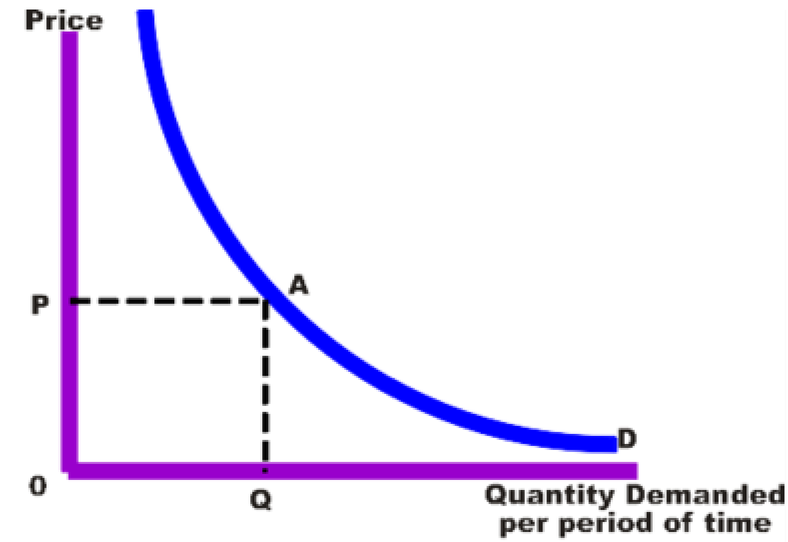
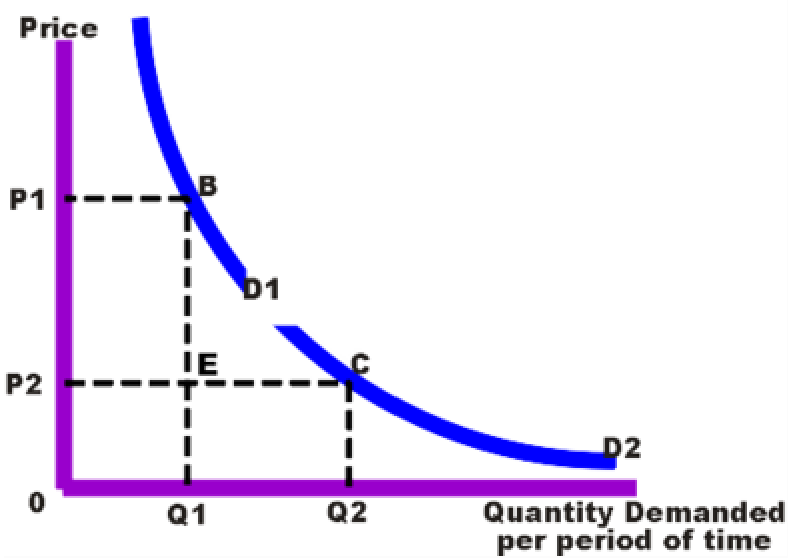
## Price Discrimination

Price discrimination exists within a market when the sales of identical goods or services are sold at different prices by the same provider. The goal of price discrimination is for the seller to make the most profit possible . Although the cost of producing the products is the same, the seller has the ability to increase the price based on location, consumer financial status, product demand, etc.




Sales Revenue

These graphs shows the difference in sales revenue with and without price discrimination. The intent of price discrimination is for the seller to make the most profit possible.

## Price Discrimination Criteria

Within commerce there are specific criteria that must be met in order for price discrimination to occur:

- The firm must have market power.
- The firm must be able to recognize differences in demand.
- The firm must have the ability to prevent arbitration, or resale of the product.

## Types of Price Discrimination

In commerce there are three types of price discrimination that exist. The exact price discrimination method that is used depends on the factors within the particular market.

- First degree price discrimination: the monopoly seller of a good or service must know the absolute maximum price that every consumer is willing to pay and can charge each customer that exact amount. This allows the seller to obtain the highest revenue possible.
- Second degree price discrimination: the price of a good or service varies according to the quantity demanded. Larger quantities are available at a lower price (higher discounts are given to consumers who buy a good in bulk quantities).
- Third degree price discrimination: the price varies according to consumer attributes such as age, sex, location, and economic status.

## Examples of Price Discrimination

Price discrimination is a driving force in commerce. It is evident throughout markets and generates the highest revenue possible by shifting the price of a product based on the consumer's willingness to pay, quantity demanded, and consumer attributes. Many examples of price discrimination are present throughout commerce including:

- Travel industry: airlines and other travel companies use price discrimination regularly in order to generate commerce. Prices vary according to seat selection, time of day, day of the week, time of year, and how close a purchase is made to the date of travel.
- Coupons: coupons are used in commerce to distinguish consumers by their reserve price. A manufacturer can charge a higher price for a product which most consumers will pay. Coupons attract sensitive consumers to the same product by offering a discount. By using price discrimination, the seller makes more revenue, even off of the price sensitive consumers.
- Premium pricing: uses price discrimination to price products higher than the marginal cost of production. Regular coffee is priced at $1 while premium coffee is $2.50. The marginal cost of production is only $0.90 and $1.25. The difference in price results in increased revenue because consumers are willing to pay more for the specific product.
- Gender based prices: uses price discrimination based on gender. For example, bars that have Ladies Nights are price discriminating based on gender.
- Retail incentives: uses price discrimination to offer special discounts to consumers in order to increase revenue. Incentives include rebates, bulk pricing, seasonal discounts, and frequent buyer discounts.

Source: Boundless. "Analysis of Price Discrimination." *Boundless Economics*. Boundless, 26 May. 2016. Retrieved 10 Oct. 2016 from https://www.boundless.com/economics/textbooks/boundless-economics-textbook/monopoly-11/price-discrimination-73/analysis-of-price-discrimination-275-12372/