Price Discrimination

First-degree
Second-degree
Third-degree

Cost Justified
Not Simply Uniform Price
Not Pejorative
Non-linear Prices

First-degree (perfect)
- Captures total consumers' surplus
- Pareto efficient / output
- Cannot improve CS + PS
- Demand curve is marginal revenue
- Example
  - Generic
  - Doctor?

First-degree
- Group customers
  - College students/elderly
  - Business travelers/customers
- Different prices for groups
- Same discounts, all customers
- Self-selecting
Price Discrimination

- **First-degree**
- **Second-degree**
  - Group customers
  - Different prices for groups
  - Self-selecting
  - Examples (graphic & airlines) (Varian, p.428)

---

Second-degree Price Discrimination

<table>
<thead>
<tr>
<th>Price</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>P_1</td>
<td>Q_1</td>
</tr>
<tr>
<td>P_2</td>
<td>Q_2</td>
</tr>
</tbody>
</table>

---

Price Discrimination

- **First-degree**
- **Second-degree** (Non-linear Pricing)
  - Group customers
  - Different prices for groups
  - Self-selecting
  - Example
  - Quality or quantity
  - May be Pareto improving

---

Non-linear Pricing (Second-degree)

- Volume (quantity) discounts
- Declining block pricing
- Bulk tariffs
- Efficiency/welfare enhancing
Price Discrimination

- Non-linear Pricing
- Efficiency Improved
  - Examples:
    - Mr. Bid and Little
    - Peak/Off-peak pricing
    - Self-selecting two-part tariffs

Price Discrimination

- First-degree
- Second-degree
- Third-degree
  - Different prices
  - Different customer classes
  - Example

Price Discrimination

- First-degree Discrimination
- Second-degree
- Third-degree
  - Not Uniform Prices
  - Non-linear Pricing
  - Efficiency/Profits Improved
- Predatory Pricing