The principle of Ramsey pricing.

Ramsey prices mean that the price margins should be inversely proportional to the demand elasticity for the various products/services.

This means that those services with more elastic demands are charged less, proportionally, above the product specific marginal cost than the price of those services with less elastic demand. The more inelastic the demand, the higher the price *ceterus paribus*.

Formally, with independent demands (the cross elasticity of demand equals zero Namely, $\eta_{i,j} = 0$).

\[
\frac{(p_i - mc_i)}{n_i} = \frac{(p_j - mc_j)}{n_j} \text{ for all } i \neq j
\]

Where $p_i$ and $p_j$ are the prices of product $i$ and $j$; $mc_i$ and $mc_j$ are the product specific marginal costs for product $i$; and $n_i$ and $n_j$ are the elasticities for products $i$ and $j$ respectively. $\eta_{i,j} = 0$ is the cross-elasticity for $i \neq j$ for all $i$ and $j$. 