SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION
MBA FA- 206
SUBJECT NAME: FUNDAMENTALS OF MARKETING

UNIT-IV
TOPIC NAME- Price Discrimination: Definitions, Types, Conditions and Degrees

Price discrimination refers to the charging of different prices by the monopolist for the same product.

The difference in the product may be on the basis of brand, wrapper etc. This policy of the monopolist is called price discrimination.

Definitions:

“Price discrimination exists when the same product is sold at different prices to different buyers.” –Koutsoyiannis “Price discrimination refers to the sale of technically similar products at prices which are not proportional to their marginal cost.”

“Price discrimination is the act of selling the same article produced under single control at a different price to the different buyers.” -Mrs. Joan Robinson

“Price discrimination refers strictly to the practice by a seller of charging different prices from different buyers for the same good.” -J.S. Bain

“Discriminating monopoly means charging different rates from different customers for the same good or service.” –Dooley

Types of Discriminating Monopoly:

Price discrimination is of following three types:

1. Personal Price Discrimination:

Personal price discrimination refers to the charging of different prices from different customers for the same product. For example, a doctor charges different fees for the same operation from rich and poor patients.

2. Geographical Price Discrimination:

Under geographical price discrimination, the monopolist charges different prices in different markets for the same product. It also includes dumping where a producer may sell the same commodity at one price at home and at the other price abroad.

3. Price Discrimination according to Use:

When the monopolist charges different prices for the different uses of the same commodity is called the price discrimination according to use.

Conditions for Price Discrimination:
For price discrimination to exist, it requires the basic conditions.

1. Difference in Elasticity of Demand:

Price discrimination is possible only when elasticity of demand will be different in different markets. The monopolist will fix higher price where demand is inelastic and low price where the demand will be elastic. In this way, he will be able to increase his total revenue.

2. Market Imperfections:

Generally, price discrimination is possible only when there is some degree of market imperfections. The individual seller is able to divide his market into separate parts only if it is imperfect.

3. Differentiated Product:

Price discrimination is possible when buyers need the same service in connection with differentiated products. For example, railways charges different rates for the transport of coal and copper.

4. Legal Sanction:

In some cases price discrimination is legally sanctioned. As electricity Board charges lowest for electricity for domestic use and highest for commercial houses.

5. Monopoly Existence:

Price discrimination is also called discrimination monopoly. It is evident that price discrimination is possible only under conditions of monopoly.

Degree of Price Discrimination:

Prof. A.C. Pigou has given the following three degrees of discriminating monopoly:

1. Price Discrimination of First Degree:

Price discrimination of first degree is said to exist when the monopolist is able to sell each separate unit of his product at different prices. It is also known as the perfect price discrimination. In case of first degree price discrimination, a seller charges a price equal to what the consumer is willing to pay. It means the seller leaves no consumer's surplus with the consumer. Apart from above, under perfect price discrimination the demand curve of the buyer, like under simple monopoly, becomes the marginal revenue curve of the seller.

2. Price Discrimination of Second Degree:

In the price discrimination of second degree buyers are divided into different groups and from different groups a different price is charged which is the lowest demand price of that group. This type of price discrimination would occur if each individual buyer had a perfectly in- elastic demand curve for good below and above a certain price.

3. Price Discrimination of Third Degree:

Price discrimination of third degree is said to exist when the seller divides his buyers into two or more than two sub markets and from each group a different price is charged. The price charged in each sub-market depends on the output sold in that sub-market along with demand conditions of that sub-market. In the real world, it is the third degree price discrimination which exists.

Resale Price Maintenance

Resale price maintenance is a contractual arrangement between a manufacturer and a distributor whereby the distributor agrees to abide by stated resale price minimums or maximums. This is a common strategy used by manufacturers that want to maintain a certain brand image in the marketplace by keeping resale price points within a particular range. Small businesses may have more significant interest given the major impact one or a few products can have on success.

Advantage 1: Image Stability

Manufacturers that are concerned with maintaining a strong reputation for quality or durability with end customers may use minimum resale price contracts to prevent distributors from discounting products to their customers. When prices are discounted by wholesalers and retailers, the end customer may ultimately purchase the product at a price point that undermines the quality perception intended by the manufacturer. This can ultimately create repercussions because if consumers associate the lower price with lesser quality, retailers and distributors are less willing to pay well to acquire the product.

Advantage 2: Volume

In other situations, manufacturers prefer to maintain a high-value or low-cost orientation for products in the consumer marketplace. In this case, they may set a maximum resale price to prevent distributors from overpricing the products as they move through the rest of the distribution channel. If consumers are overcharged and do not find the product's benefits to have significant value, a general sense of negativity toward the manufacturer's products can emerge.

Disadvantage 1: Anti-Competitive

Interestingly, the legal perspective on resale price maintenance contracts has changed as of 2007, following 96 years of legal restriction based on the 1911 Sherman Act. The Supreme Court held at that time that such contracts were anti-competitive and went against the free-enterprise system by inhibiting the ability of the marketplace to influence prices. However, in 2007 the "Leegin Creative Leather Prods. V. PSKS, Inc." case resulted in a judgment that resale price maintenance was not illegal but each situation would be subject to the "Rule of Reason," according to Arent Fox. Thus, the legal consideration is whether the merits of the contract outweigh the competitive drawbacks.

Disadvantage 2: Inflexibility

More practically, resale price maintenance contracts limit the flexibility of the reseller to adjust prices to market demand. If it has excess inventory and demand is waning, a contract may prevent a reduction in price that would allow for the quick sale of the excess inventory. On the contrary, if demand drastically increases, a maximum price contract can limit the reseller's ability to optimize profit margins while the product is hot.