PRICE DISCRIMINATION

The Practice of charging different prices for identical products is referred to as price discrimination. The monopoly firm that takes resort to practice of Price discrimination is termed as discriminating monopoly. Eg. When a doctor charges higher fees from a rich person and a lower fee from a poor patient this signifies price discrimination. In the words of Joan Robinson, "The act of Selling the same articles produced under a single control at different prices to different buyers is known as Price discrimination." According to J.S. Bain "Price discrimination refers strictly to the Practice by a Seller of Simultaneously charging different prices

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FORMS OF PRICE DISCRIMINATION

The Principal forms of Price discrimination are:—

1) **Personal price discrimination:** — Here the monopolist charge different prices for the same product from different persons. Eg. Railways charge lesser fare from senior citizens and high fare from other Passengers.

2) **Local or geographical price discrimination:** — When the monopolist charge different prices for the same product from different places localities, regions or markets it is called local or geographical price discrimination.

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Discrimination according to use :- A commodity can be put to different uses and the monopolist charges different prices for its different uses. Eg. Electricity - Charged differently for carrying passengers and goods in railway

Degrees of Price discrimination.

A.C Pigou has discussed three degrees of Price discrimination :-

First Degree of Price Discrimination:

When the monopolist sell each unit of the product to each customer at a separate price. In this case the price charged is exactly equal to his demand price.

Second degree price discrimination :- When

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iii) 3rd degree of Price discrimination - In this degree of Price discrimination the customers are classified into different groups on the basis of income, intensity of demand etc and accordingly higher and lower prices are charged from the customers.

Conditions under which Price discrimination is Possible: -

The price discrimination is possible only if the following conditions are fulfilled.

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(ii) Distance: If the geographical distance between different markets is large the transfer of goods from a cheaper market to a costly market is both difficult and expensive. In such a situation price discrimination is possible.

(iii) Legal barriers: If there are check post it becomes difficult to transfer goods from cheaper to the costly market. Hence price discrimination is possible.

(iv) Legal Sanction: Legal sanction pave the way for price discrimination. Eg. Railway charge different fares for 1st class A.C. and 2nd class.

Differences between taste and preferences.

If the consumers have more taste and preference for a product it is possible to charge different price and vice-versa.

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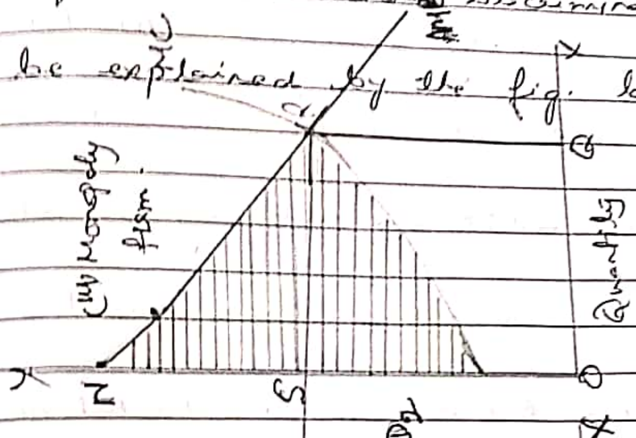
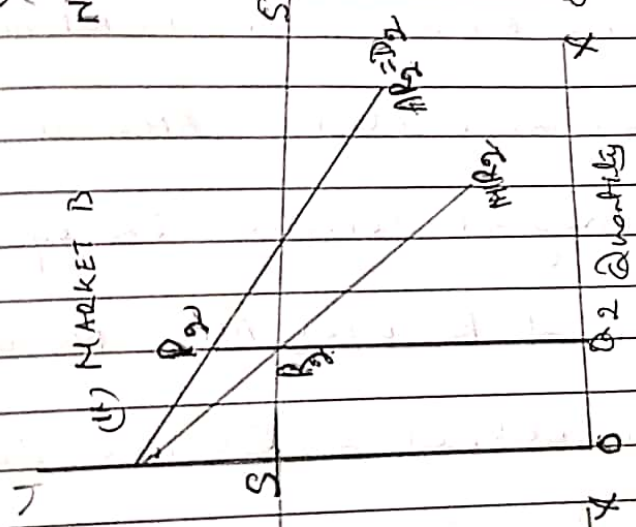
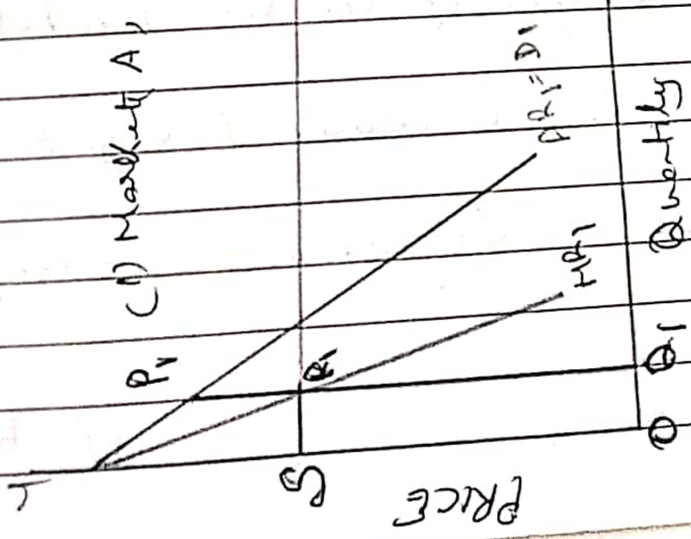
viii) **Ignorance and laziness:** - Ignorance and laziness of the buyers also makes possible to charge higher price for a monopolist.

Equilibrium under Discriminating Monopoly

The Equilibrium under Discriminating monopoly can be explained by the fig. below.







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In the fig given on the previous page the Quantity is measured on the horizontal scale, and the price on the vertical scale. Fig (I) and (II) are related to market A and B respectively. Fig (III) is related to a monopoly firm. In market A demand is ~~more~~ less elastic so that revenue curves $AR_1 = D_1$ and MR_1 are relatively less elastic. In market 'B' demand is more elastic so that revenue curves in this market $AR_2 = D_2$ and MR_2 are more elastic. AMR is the aggregate marginal revenue. The equilibrium takes place at R where AMR = MC and equilibrium output is OQ. To determine the total output of the two markets a horizontal line is drawn through R passing through all the figures. It cuts MR_1 at R_1

where $MR_1 = MC$ and cuts MR_2 at R_2 where $MR_2 = MC$. The quantity supplied by the monopolist to market A is OQ_1 and quantity supplied to market B is OQ_2. The total output $OQ = OQ_1 + OQ_2$. Price in market 'A' is P_1Q_1 and in market 'B' is P_2Q_2. That is in market A price is higher than market B. The total Revenue in fig (III) is OQRN and the total cost is OQRT. The total profit earned by the monopolist is $OQRN - OQRT = TRN$.

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