Class: B.Com Part I

Subject : Business Economics and Environment.

Paper : I

Unit : IV

Topic Conditions for Price Discrimination

Sequence No : 10

Prepared by:
Dr. Roy Anitakumari Paramanand
Marwari College Darbhanga.
E-mail roy27583@gmail.com.

Subject

MON TUE WED THR FRI SAT SUN

Conditions for Price Discrimination:

Price discrimination is possible under the following conditions:

1. The seller must have some control over the supply of his product. Such monopoly power is necessary to discrimate the price

2. The seller should be able to divide the market into at least two sub-market or more.

3. The price-elasticity of the product must be different in different markets. Therefore the monopolist can set a high price for those buyers whose price-elasticity of demand for the product is less than 1
In simple words, even if the seller increase the price, such buyers do not reduce the purchase volume.

4. Buyers from the low-priced market should not be able to sell the product to buyers from the high-priced market.

Hence we can conclude that a monopolist who employs price-discrimination charges a higher price from the market with inelastic demand.

Subject

On the other hand, the market which is more responsive is charged loss.

Example:

The single monopoly price of a product is Rs 30. The elasticities of demand for the product in market A and B are 2 and 5 respectively. Therefore, the marginal revenue in market A (MR_A) is

$$MR_A = AR_A \frac{e-1}{e} = 30$$

$$= \frac{2-1}{2}$$

$$= 15$$

Similarly the marginal revenue in market B (MR_B) is

$$MR_B = AR_B \frac{e-1}{e} = 30$$

$$= \frac{5-1}{2}$$

$$= 24$$

Hence, we can see that the marginal revenue of the markets A and B are different when the elasticities of demand is a single price are different. Further, we also find that the MR of the market with higher elasticity is higher than the MR of the market with low elasticity of demand.

Subject

MON TUE WED THR FRI SAT SUN

A monopolist, is such a case, transfers some amount of products from market A to market B. This is because in market B, the high elasticity of demand implies larger marginal revenue. It is important to note here that when units are transferred from A to B, price in A will rise and fall in B.

However there is a limit to which the monopolist can transfer between market A and B. Once he reaches that limit and reaches a point where the MRs in both the markets become equal due to the transfer of output transferring more will no longer be profitable. At this stage, the monopolist starts charging different prices in the two markets. So, he charges a higher price in the market with a lower elasticity of demand and a lower price in the market with a higher elasticity of demand.