Class: B.Com Part I

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Unit : IV

Topic : Price Discrimination

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Price Discrimination :

Meaning :

Price discrimination means charging different prices from different customers or for different unit of the same product. Price discrimination is possible when the monopolist sells in different markets in such a way that it is not possible to transfer any unit of the commodity from the cheap market to the dearer market.

In the words of Joan Robinson "The act of selling the same article, produced under single control at different price to different buyers is known as price discrimination".

Price discrimination is, however not possible under perfect competition, even if the two markets could be kept separate. Since the market demand in each market is perfectly elastic; every seller would try to sell in that market in which he could get the highest price. Competition would make the price equal in both the market. Thus price discrimination is possible only when markets are imperfect.

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Types of Price Discrimination

These following points also makes the price discrimination profitable.

(1) Firstly, it may be personal based on the income of the customers. The monopolist may resort to price discrimination when goods and services are not transferable. For examples, doctors and lawyer charge different fees from different customers on the basis of their income. Higher fees are charged to rich person and lower to the poor.

(2) Secondly;, Sometimes price discrimination occurs when the government rules and regulations permit. For instance, according to rules, electricity rates are fixed at lower level for resi purpose and higher level for comm.

(3) Thirdly price discrimination may be based on the nature of the product, Unbranded product like Open tea are sold at lower prices than branded product like Brooke Bonde. Economy size tooth pastes are relatively cheaper than Orindinary size tooth pastes.

(4) Fourthly, price discrimination is also related to the age, sex and status of the customers. Barbers charges less for children hair cuts.

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(5) The monopolist may practice price discrimination, when some of his superiority customer have the feeling that, though they are paying a higher price, they are getting better type of product. Or it may be possible that the monopolists take advantages of the ignorance of consumers.

(6) Price discrimination is also based on the geographical or local discrimination when a monopolist sells in one market at a higher price than in the other market

(7) Price discrimination may be based on the use of the product. Railway charges different rates for different compartments or for different services.

(8) Many industries, such as the airline industry the arts and entertainment industry, and the pharmaceutical industry, use price discrimination strategies. eg. price discrimination include issuing coupons, applying specific discounts.