In-class exercise I: Price Discrimination

We had the “baby Mac,” then the iMac; it’s now time for the “baby iMac.” As head of marketing of Apple Computer, you decided you can do better than the current situation. Last year, the company sold one million iMacs for $1,500 each. This is the most you can get from the market segment that currently buys the iMac. According to a marketing study, there is a second market segment of two million people willing to pay up to $500 for a stripped-down version of the iMac. Your market researchers also tell you that

(a) The first segment would be willing to pay no more than $800 for the stripped down version
(b) The second segment would be willing to pay no more than $600 even for the Full-fledged version of the iMac.

Your production people tell you that it costs $300 to produce an iMac, be it the standard version or the stripped-down version.

What is your optimal pricing policy?