

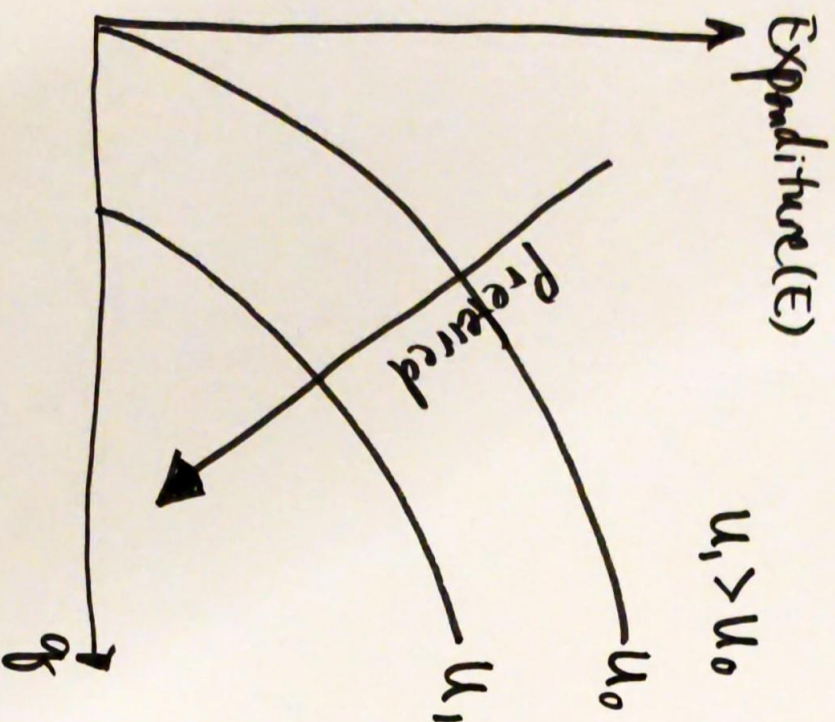
TIP: Recall the baby Mac & baby iMac
↑
Question

For
charging
different
prices
to
different
types of
customers.

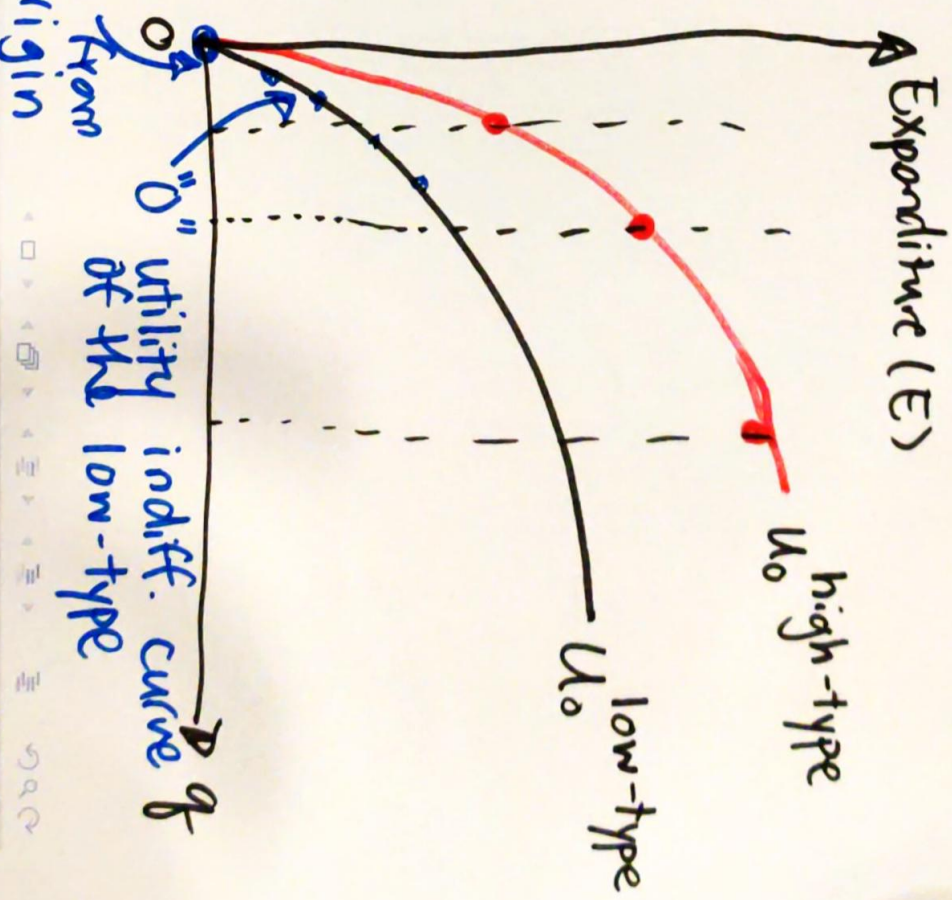
- 1) Set price of the product targeting the low-type = WTP of the low-type
- 2) Now, lower the price of the product targeting the high-type so that the high-type will be indifferent (or a bit preferred) the premium product.
- 3) If this gives higher profit than the original pricing scheme, then the company should use it.

Consumers' Indifference Curves

Direction of Preference



Low-type vs. High-type Indifference Curves

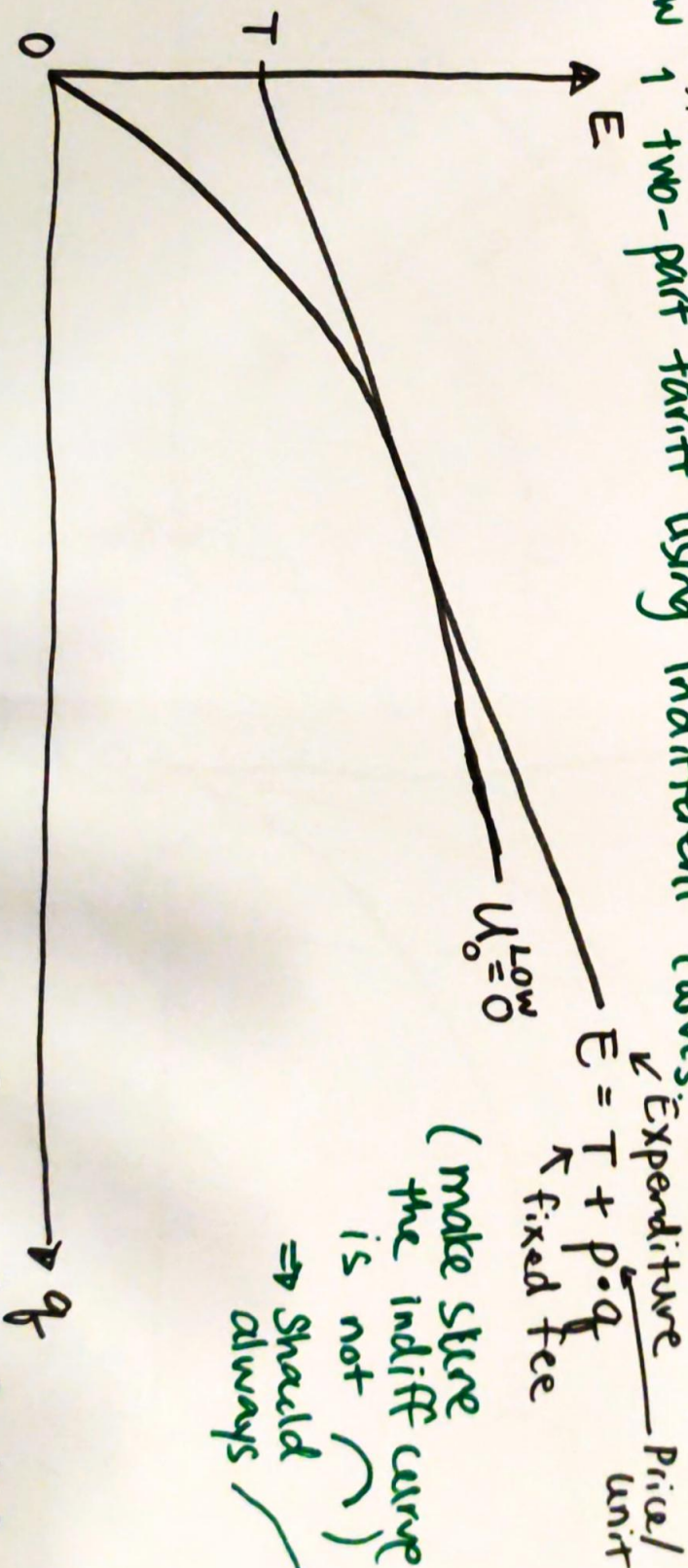


The low-type usually get most of their surplus extracted
Just like in the graph on p.10



- Suppose there are 2 types of consumers.
- Type 1 (Low-type) : has a low valuation of the product
- Type 2 (High-type) : has a high valuation of the product

- First, Suppose the company design a two-part tariff that extracts all surplus from the low-type
- draw 1 two-part tariff using indifferent curves

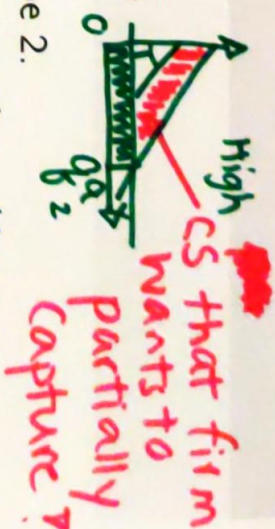


$E = T + P \cdot q$
Expenditure
fixed fee
Price/unit

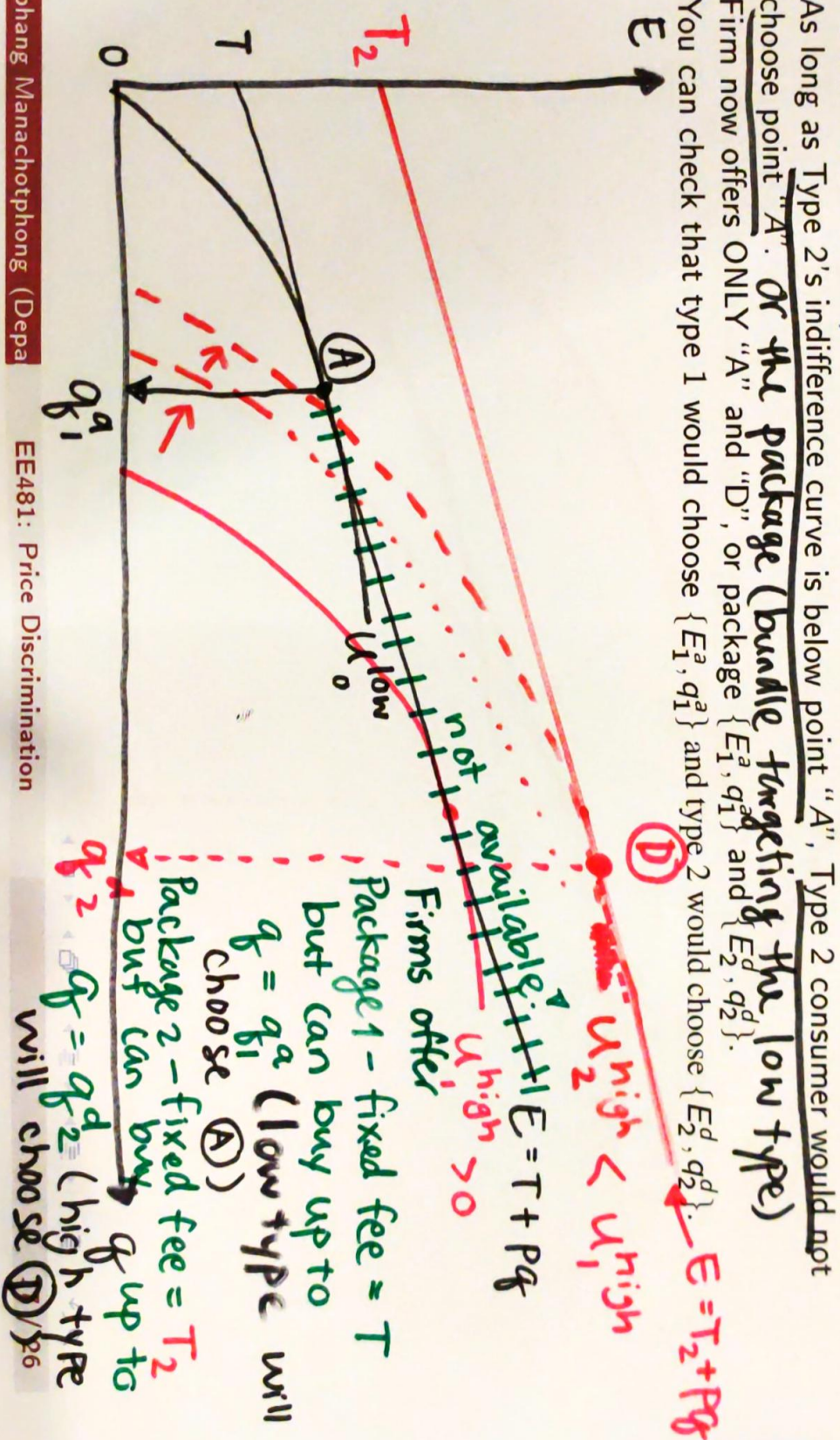
(make sure the indiff curve is not $\Rightarrow$ should always)

Type 2 has more surplus for firm to extract

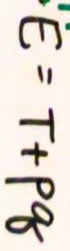
High-type



- Let's suppose firm would like to extract more surplus from Type 2.
- This can be done by moving the expenditure outlay for type 2 up and up. (Assume Parallel Shifts for now)
- As long as Type 2's indifference curve is below point "A", Type 2 consumer would not choose point "A". Or the package (bundle targeting the low type)
- Firm now offers ONLY "A" and "D", or package $\{E_1^a, q_1^a\}$ and $\{E_2^d, q_2^d\}$.
- You can check that type 1 would choose $\{E_1^a, q_1^a\}$ and type 2 would choose $\{E_2^d, q_2^d\}$.



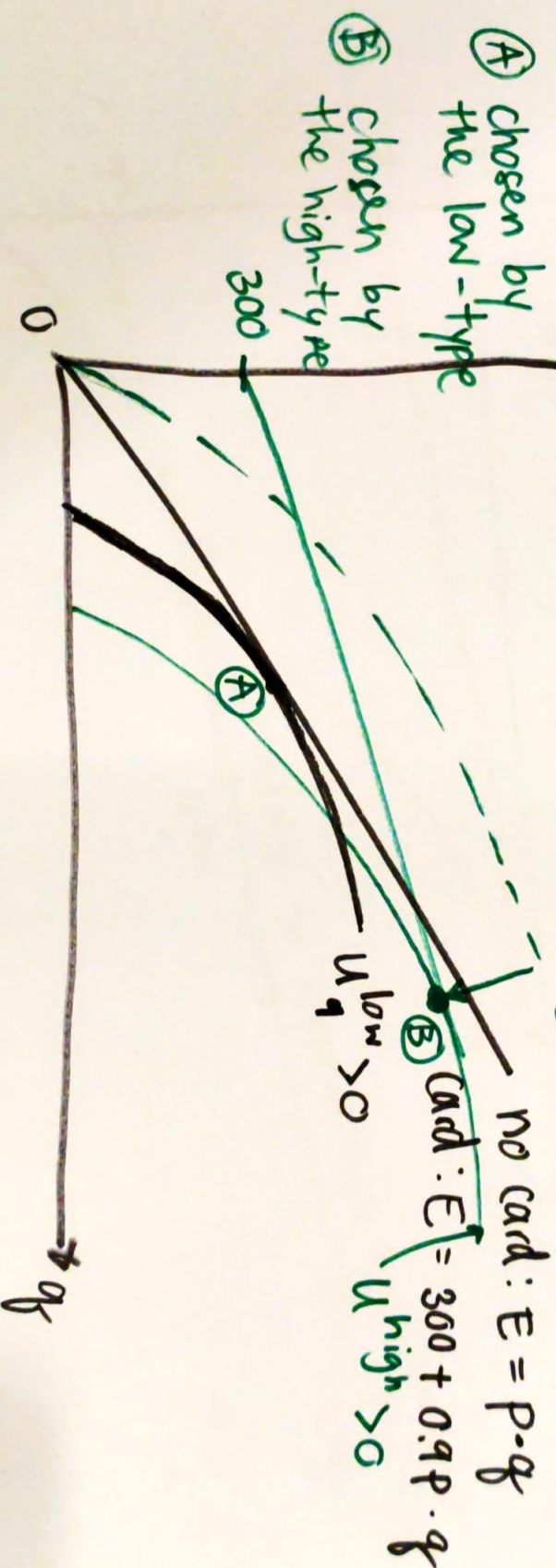
- Package C earns higher Expenditure from the high-type.

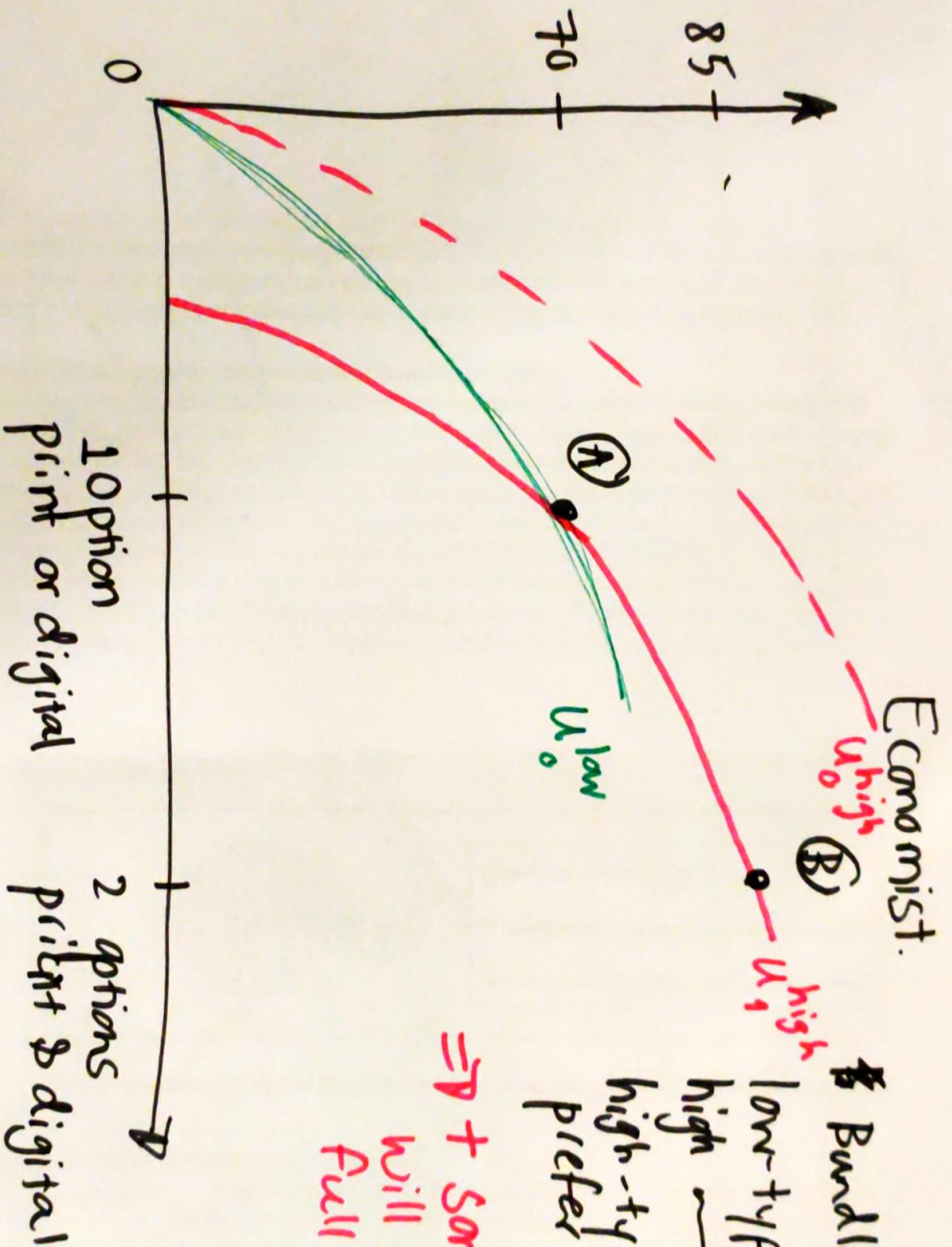


Can this be done in the real world?

- In the real world, it is hardly possible to figure out what would be the right E and q for each type, let alone there are usually more than 2 types of customers.
- A store membership card that you pay a fixed fee, but get some % discount is a kind of two-part tariff.

A store card costs 300 THB/year. gives 10% discount.





Bundle (A) & (B)
 low-type chooses (A)
 high-type chooses (B)
 high-type has to
 prefer (B) than (A)

⇒ + some explanation
 will give a
 full score?