**NRU HSE-2020, Microeconomics Class-10**

# Price Discrimination

**1.** A monopolist has two customers with the following demand functions:  and . The monopolist’s cost function is .

**(a)** Suppose that monopolist can differentiate between the customers and charges different per unit prices. Find the profit-maximizing prices. Provide graphical solution.

**(b)** Suppose that price discrimination is prohibited. Find the profit-maximizing price. Provide graphical solution.

**(c)** Calculate the value of society loss in (a) and (b), compare and explain the result.

**2.** Reconsider the monopoly from problem 1. Now, suppose that instead of the linear pricing scheme the monopolist uses a two-part tariff policy

**(a)** Assuming that this monopolist can set different tariffs to different groups, find the optimal two part tariffs.

**(b)** Reconsider part (a) under the assumption that the two-part tariff should be the same for all customers.

**(c)** Calculate the value of society loss in (a) and (b), compare and explain the result.

**3**. A price discriminating monopolist sells both in its home market and in the foreign market at prices  and , where . Assume that demand curves are linear and diminishing at each market and MC curve is linear and increasing. How is the volume of domestic sales affected by a tax per unit on foreign market sales? (Assume that tax rate is small enough so that the monopolist still sells at both markets)?