

Price Discrimination

1st Degree Price Discrimination This is where the firm charges the Maximum price that a consumer is willing to pay. E.g. Auctions or bartering in a stall.

2nd Degree Price Discrimination This is when consumers different prices according to how much they produce.

3rd Degree Price Discrimination This is when consumers are grouped into two or more independent markets. Examples include different prices for OAPS and Children

Conditions Necessary For Price Discrimination

1. The Firm must be a price maker i.e. able to set prices.
2. The firm must be able to separate the market into different sections and prevent resale. E.g. it must be impossible for an adult to use a child's ticket.
3. There must be a different elasticity of demand for the different market sections. E.g. train firms can charge high price at Peak times because at this period demand for train travel is inelastic.
 - If a firm has a marginal cost of close to 0 then it will seek to use price discrimination to sell as many tickets as possible. (because Profit max occurs when $MR = MC$)

Advantages of Price Discrimination

1. Firm will be able to increase revenue. This may enable some firms to stay in business who may have otherwise have made a loss. E.g. train companies need price discrimination to offer off peak travel
2. Increased revenue can be used for Research and Development
3. Some Consumers will benefit from lower fares. E.G. old people can take advantage of cheaper fares on trains.

Disadvantages of Price Discrimination

1. Some Consumers will face higher prices, leading to allocative inefficient and a loss of consumer surplus.
2. Often those who benefit from lower prices may not be the poorest. For example some old people may be quite rich, but unemployed will have to pay the full adult fare.
3. There may be administration costs involved in separating the markets

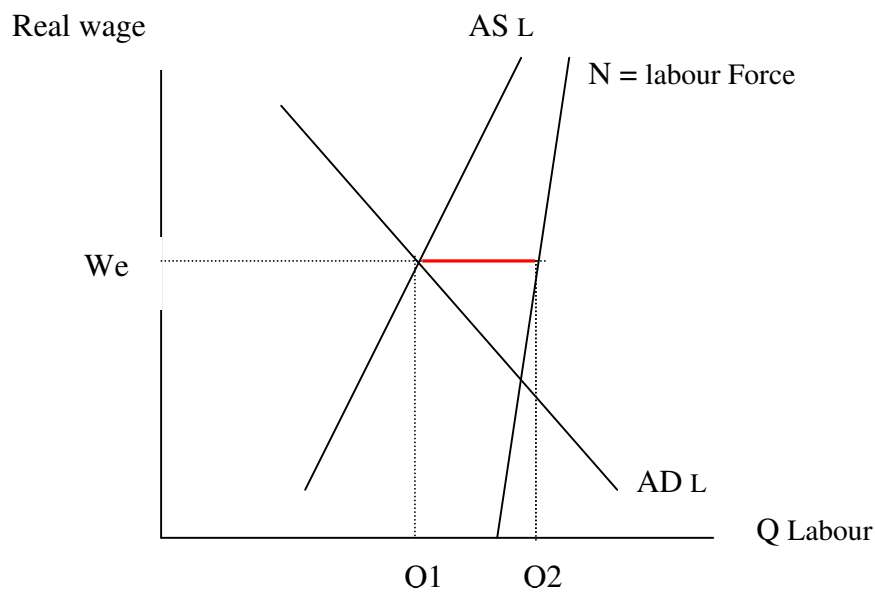
Profits from Price Discrimination can be used to cross subsidise predatory pricing, e.g. Bus companies

The Natural Rate of Unemployment

- The Natural Rate of Unemployment is the rate of Unemployment when the Labour market is in equilibrium.
- This is the difference between those who would like a job at the current wage rate and those who are willing and able to take a job.
- The Natural Rate of Unemployment will therefore include:
 - i) frictional and
 - ii) structural unemployment

Therefore the natural rate of unemployment is unemployment caused by supply side factors rather than demand side factors

The Natural Rate of Unemployment



- Monetarists argue that the Natural Rate of Unemployment occurs when the Long Run Phillips Curve crosses the x axis
- The Natural Rate of Unemployment is sometimes known as the Non accelerating inflation rate of Unemployment **NAIRU**

