

NAME:

(a) Briefly discuss the differences between third degree price discrimination and second degree price discrimination. (b) Compare two-part tariff and non-linear pricing in terms of their methodology.

**Answer Key**

(a) In the third degree price discrimination, the monopoly knows who belongs to which demand group (it can check the ID's), and sets a unit price for one group and another unit price for the other group, that is, a unit price for each group and every buyer within a group pays the same price for each unit they buy, but buyers across groups pay different prices and price does not vary across units within a group. In the second degree price discrimination, the monopoly cannot tell who belongs to which demand group (cannot check ID's) and sets different prices for different number of units, but any two buyers who get the same number of units pay the same total price.

(b) Both are second degree price discrimination practices. In a two part tariff, the monopoly sets a fixed fee and a unit price, and buyers decide how many units to get. In non-linear pricing, the monopoly sets different pairs of quantity and total payment, and lets the buyers choose whichever pair they like. In the latter, available quantity levels are restricted by the monopoly.