YESHWANTRAO CHAPHEKAR COLLEGE, PALGHAR

PRESENTATION

ON

CHAPTER- 17.PRICING PRACTICES- I

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Introduction of Pricing practices

- A monopolist being the sole seller of a commodity for which there are no near substitutes is in a position to influence the price.
- He is a price maker.
- Due to the powers that he enjoys, a monopolist usually resorts to price discrimination.
- Price discrimination refers to " the act of selling the same article , produced under single control at different prices to different buyers.

First Degree Price Discrimination

- It take place where, each customer can be charged a different price for a good or service.
- It is usually possible in the case of services which cannot be transferred from one person to another.
- Eg- Doctor, Lawyer, etc.
- FDPD hardly practised as it requires a complete knowledge of economic and financial standing of each customer. It is more of a theoretical case.

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Second Degree Price Discrimination

- Here the monopolist charges each consumer the highest price he is willing to pay.
- It is practised when, the total market is divided into segments and each segment is charged a separate price.
- In Mumbai it is possible to charge higher or different prices in different areas based on income level of residents.

Third Degree Price Discrimination

- It takes place when different prices are charged in different markets which are located geographically at a distance so that transfer of goods by consumers from one market to the other is not worthwhile from economic sense.

- The consumer loses his surplus by the amount equal to the increase in sellers revenue.

Conditions for Discrimination

1.Geographical Distance –

- If the markets are situated at sufficiently long distances then the transfer of goods may not be economical.
- Eg- If price discrimination is resorted to in Mumbai and Pune markets and the difference is Rs 50/- per unit, then the transfer of goods from one buyer to other between the two markets is not at all economical.

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2. Political Barriers –

- Political boundaries prevent the movement of people from one market to the other.

- Eg- If trade is allowed between the countries, then a monopolist who operates in both the markets can charge different prices for the same commodity.

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3. **<u>Tariff Barriers</u>** –

- If the home market is protected through tariffs, a monopolist may charge a higher price in the protected home market and a lower one in the competitive foreign market.

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4. **<u>Ignorance</u>** –

- When the consumers are ignorant of the price difference, they will not mind paying a higher price than what the others pay.

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5. <u>Negligible Price Difference</u> –

- Even when the price discrimination is resorted to, but the difference in price is too small, the consumers would not bother about the negligible difference.

- Attitude of indifference on the part of consumers enables the monopolist to discriminate the price.

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6. <u>Price-Quality Link</u> –

- When consumers, due to irrationality or for any other reason consider higher price as an indicator of better quality, then it is possible for a monopolist to charge a higher price to such consumers.

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7. <u>Government's Sanction</u> –

- The Government due to welfare, social or political reasons may charge different prices for the same goods and services.

- Electricity for domestic uses is charged lower rates than commercial uses,etc.

DUMPING

- Dumping in our case refers to a situation where the monopolist enjoys a monopoly power in the home market and accepts a competitive price in the other market. i.e. world market.
- At home the monopolist is a price maker and in the world market a price maker.
- Dumping resulting in international price discrimination is referred to as **Persistent Dumping**.

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- Dumping is called **Predatory**- when there is temporary sale of a commodity at a lower price abroad.
- The objective is to drive foreign competitors out of business and charge monopoly price thereafter.
- Dumping is termed **Sporadic** when there is occasional sale of a commodity at a lower price abroad in order to unload excess stocks or a temporary surplus.