

MS3 – Supervision #3  
Economics of firms and markets  
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# Price discrimination

## First degree

- Perfect discrimination

## Second order

- Self-selection
- Non-linear pricing, versioning, bundling
- Seller knows different groups exist but cannot identify them

## Third order

- Selection by indicators
- Indicators: geography, (observable) individual characteristics, ...  
↔ cf. debate about geo-blocking in the EU

# Price discrimination – what does it take?

## Perfect discrimination – the benchmark

- Law of one price is not satisfied:
  - Impossible or very costly resale;
  - Transaction costs;
  - Legal restrictions;
  - Imperfect information
- Rarely happens in reality;

# The Firm – a tale of different views - I

## Neo-classical view

- $\pi(q) = pq - c(q)$
- Mathematical construct
- How will a change in input prices affect production?

## Managerial

- Ownership vs. management
- Principal - agent problem

↔ Colin Mayer

# The Firm – a tale of different views – II

## Behavioural

- Conflicting interests
- Firm as the locus of settlement of that conflict

## Transaction costs

- Incomplete contracts
- Vertical integration

## A. Chandler

### Theory

- separation of ownership and management (cf. managerialist view)
- economies of scope and scale
- technologies enabling the development of the modern corporations

### Looking forward

- + : larger financial risk, economies of scope and scale, ...
- - : principal-agent problem