

Practice problem set 18

Advanced pricing

This problem set constitutes recommended material for the relevant lab. The choice of tasks to be presented instructionally in every lab is in the discretion of the individual teacher. Students are expected to work on practice problems, however, are not required to submit written solutions. It is non-negotiable policy in this course to not provide hand-outs with the solutions of practice problem sets.

1. There are two consumers willing to buy a product. Consumer 1 values the product at £1000 if he can obtain it this year and only £500 if he has to wait until next year. Consumer 2 values the product at £100 whether she buys now or waits to buy until next year (ignore discounting). Assume the seller can only set a single price each year, and that the firm wants to sell to consumer 1 this year and to consumer 2 next year. What are the highest prices the firm can set in each year?

UoL: 2006 zb

2. In 2005 Ford UK introduced policy a promising to reimburse customers who bought immediately for any price cut they might introduce in the following year. What effect would this policy have on Ford's profitability?

UoL: 2006 zb

3. First-time subscribers to the Economist pay a lower rate than repeat subscribers. How can you explain this policy?

UoL: 2005 za / 2005 zb / 2009 za

4. A monopolist produces two goods, 1 and 2, both at zero marginal cost. The monopolist applies mixed bundling (that is, she offers the two goods as a bundle but also separately).

(a) What can you infer for the comparison between the price of the bundle and the price of each good separately? Explain.

(b) Since the marginal costs are zero, does it make sense to use mixed bundling? Why or why not?

Module 3 Test – 2015

5. Crazy-Salsa-Lovers™, a real dance studio located near Tretyakovskaya metro station, uses a pricing scheme similar to what is used by many dance schools: for the first 8 lessons they charge 2200 rubles and for the next 8 lessons they charge 2900 rubles. Assuming that customers know the complete scheme ex ante, use IO terminology to explain why this tactic can be profit maximizing.

Module 3 Test – 2015

6. You are hired as a consultant by the public water company of Greece (ΕΥΔΑΠ). The company does not primarily care to maximize profits. However, it would be very interested in reducing the monthly consumption of water because reserves are running low. In a past effort to keep the equilibrium quantity low, the company raised significantly the price of water. However, this policy was quite unpopular because it made it hard for those with low income to afford to pay for water. Given that the company has no information about household incomes, can you propose a price system that will make water affordable for everyone but it will also be effective in keeping the total quantity down?

End-module 3 test – March 2016

7. A monopolist of electricity applies peak-load pricing charging different prices at day and different at night. Explain why the two markets cannot be considered segregated in a thorough profit maximization process.

End-module 3 test – March 2017

8. A publication company owns 2 magazine titles: 'Ms. X' and '360 View'. The company conducted two independent market surveys -one for each magazine- to measure the correlation between price and quantity demanded. Both surveys gave identical results that for each title price and quantity demanded are negatively related at a similar degree for both titles. Should the company bundle the two titles? Justify your answer.

End-module 3 test – March 2017

9. Icon club in Moscow is well-known for its strict "face-control" policy at the entrance. On average only one out of three customers is admitted every Saturday night. Experience has shown that people who speak English at the door and are identified as expatriates are almost never denied entrance. After someone passes the face control stage, the club applies the following pricing system. For admission, men have to buy a 2000 ruble card while women enter for free. The card can be redeemed at the bar for 5 free drinks. The price of a drink (without using a card) is 400 rubles.
- (a) Is "face control" a price discrimination method? If yes, which degree? Explain your answer shortly.
- (b) Is the fact that men pay 2000 for admission and women pay 0, a price discrimination method? If yes, which degree? Explain your answer shortly.
- (c) Consider the pricing for men. Is this a two-part tariff? Explain your answer shortly.

Final Examination – 2014

10. Oleg and Maria consider joining the Fuera-de-Vista school of dancing. The owner of the school, Athena, offers lessons in two different dance styles: Kizomba and Tango. Athena has the following incomplete table of information on the reservation values for the two potential customers.

	Kizomba	Tango
Oleg	25	x
Maria	40	30

Find the range of x , on which bundling Kizomba and Tango together as one product will be the most profitable option for Athena and both potential students will buy the bundle.

End-module 3 test – March 2016