

PRIZE PROMOTIONS AND PRICE COMMITMENT

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ABSTRACT. We theoretically show that prize promotions can be profitable without taking into account the advertisement effects. In repeat purchases case, as Cremer (1984) proves, with price commitment, future decrease of the price and increase of consumer surplus can be exploited by the firm at the first purchase as an entrance fee. Though price commitment is infeasible in reality, prize promotions work as a commitment to decrease the goods price in the future for maximising the profit.

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