

# THIRD-DEGREE PRICE DISCRIMINATION AND CHANGE OF DEMAND BY DISCRIMINATORY PRICING

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This paper investigates the effect of third-degree price discrimination on social welfare when consumer's demand function would be changed by monopolist's discriminatory pricing. I posit that consumers change their attitude towards the goods produced by discriminatory firms and show that it could be another cause that prevents discriminatory pricing by firms. Furthermore, we show that this kind of consumers' attitude toward price discrimination can improve social welfare.

Thesedays, many studies that attempts to incorporate the concept of reference point dependent utility into the classical Industrial organization theories, such as Koszegi & Radin (2006) and Heidhues & Koszegi (2005). We posit that the consumers in a separated market reference the price for the other markets, and change their demand to goods. Especially, we consider the consumers that despise discriminatory pricing by firms. In other words, we attempts to incorporate consumers' "fairness concerns" toward price discrimination into the classical third-degree price discrimination theory. We show that this kind of "fairness concerns" can be a cause of preventing price discrimination. So, roughly speaking, the literature on third-degree price discrimination insists that the profit-maximizing monopolist always prefers to set different prices for different groups as long as the scale of markets or the price elasticity differs between groups.<sup>1</sup> Therefore, our result is a counter example of this common belief.

Moreover, we prove this kind of "fairness concerns", which may be irrational, toward price discrimination can improve social welfare.

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<sup>1</sup>See Varian (1989).