Output and Welfare Implications of Oligopolistic Third-Degree Price Discrimination[*]

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Abstract

Using estimable concepts, this paper provides sufficient conditions for third-degree price discrimination to raise or lower aggregate output, social welfare, and consumer surplus under differentiated oligopoly when all discriminatory markets are open even without price discrimination. Specifically, we permit general demand functions and cost differences across separate markets, and show that our sufficient conditions entail a cross-market comparison of multiplications of two or three of the following key endogenous variables with economic interpretation: *pass-through value*, *market power index*, and *markup value*. Notably, our results based on these "sufficient statistics" can readily be extended to allow heterogeneous firms, suggesting that they would be used as a building block for empirical study of third-degree price discrimination and welfare.

Keywords: Third-Degree Price Discrimination; Differentiated Oligopoly; Social Welfare; Pass-through; Sufficient Statistics.

JEL classification: D21; D43; D60; L11; L13.