

Perfect Price Discrimination and Bargaining

Eric Rasmusen, April 2, 2008

Standard models of monopoly and price discrimination rest on a hidden assumption: that the seller can make take-it-or-leave-it offers. If this is not possible, the amount of surplus the seller can claim falls, even if one seller faces a large number of small buyers. Each small buyer would be in a position of bilateral monopoly with the seller, and the seller's profit would be much less than in the usual analysis of perfect price discrimination. It might or might not be higher than with simple monopoly pricing.

“Isoperfect price discrimination” or “IPD”
: the seller bargains with each buyer separately,
and captures half the surplus.

There is a literature on posted pricing versus bargaining. Wang (1995, EER). David Myatt. David Gill and John Thanassoulis Anderson, Simon P. & Rgis Renault (2003) JET. Camera, G. and Delacroix, A. (2004). *Review of Economic Dynamics*. Cason, T.N., Friedman, D. and Milam, G.H. (2003). IJIO. Desai, P. and Purohit, D. (2004). *Marketing Science*.

PROPOSITION 1,5: If the demand curve is convex and marginal cost is constant, profits are greater from monopoly pricing than from isop-
erfect price discrimination. If demand is con-
cave, monopoly pricing is worse. If demand is
linear, it's equal.

Proposition 2: Assume INCREASING marginal cost, and equal bargaining power. If demand is linear, the seller prefers bargaining to monopoly pricing.

Cartel Discounting. Secret discounting undermines profits in cartels. The standard reason is that then sellers compete. Another reason: bargaining ensues.

The Lost-Volume Rule. If Neri breaches his contract to buy a boat from Retail, then even if Retail sells the same boat to a third party at the same price, Retail can collect damages from Neri. *Neri v. Retail Marine Corp.*, 285 N.E.2d 311, 314 n.2 (N.Y. 1972) .

The Small Country Assumption in International Trade: If a country has a small part of world demand or supply, we model it as a price-taker. But in country-to-country negotiations, it is irreplaceable.

Proposition 7. If a two-part policy is possible, the seller will use monopoly pricing for high-value consumers and bargaining for low-value.