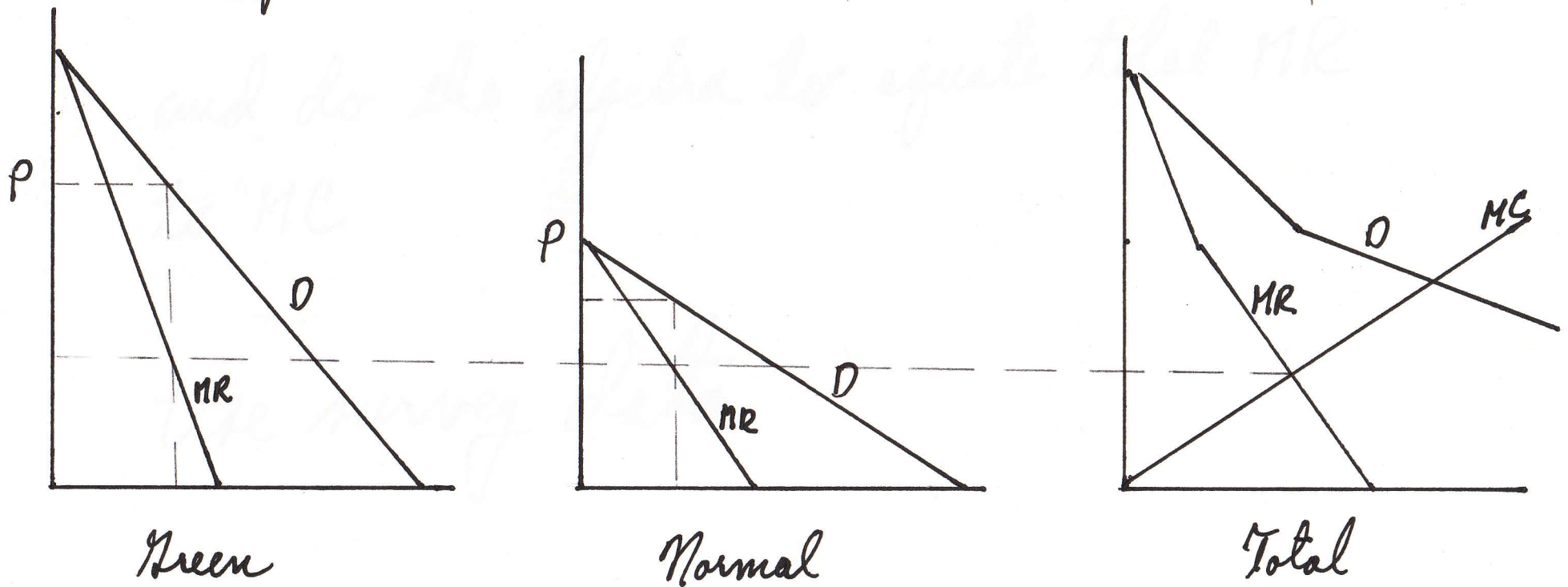


Classical textbook price discrimination

The flaw: Price changes in one market shift the demand curve in the other.

Stated differently: Cross price elasticities which can be neglected in some markets are large with green vs normal goods



The cure

Estimate demand curves such as

$$Q_G = a P_G^{-b} P_N^e$$

$$Q_N = d P_N^{-e} P_G^{-f}$$

and do the algebra to equate total MR
to MC

Use survey data

Price Days Charges

Campers

.2211 x 30 x 6 = \$39.80

7th Generation

.2749 x 30 x 6 = \$49.48

365

.3663 x 30 x 6 = \$65.93

Willingness to pay

	Green	Normal
Env sensitive consumer	55	40
Regular consumer	45	40

Case #1

	Green	Normal
	65	55
	45	40

Case #2

Case #1

$$P_G = 45$$

$$P_N = 40$$

$$P_G = 55$$

$$P_N = 40$$

$$\text{Env} \begin{cases} \text{Green} & 55 - 45 = 10 \\ \text{Normal} & 40 - 40 = 0 \end{cases} \Rightarrow \text{Buy Green}$$

$$\text{Reg} \begin{cases} \text{Green} & 45 - 45 = 0 \\ \text{Normal} & 40 - 40 = 0 \end{cases} \Rightarrow \text{Buy Normal}$$

$$\text{Env} \begin{cases} \text{Green} & 55 - 55 = 0 \\ \text{Normal} & 40 - 40 = 0 \end{cases} \Rightarrow \text{Buy Normal}$$

$$\text{Reg} \begin{cases} \text{Green} & 45 - 55 = -10 \\ \text{Normal} & 40 - 40 = 0 \end{cases} \Rightarrow \text{Buy Normal}$$

Case # 2

Will use as a homework or
exam question.