Chapter ten: special pricing pratices

Literature, Russian Literature

Price Discrimination al Affiliation Price Discrimination Q. In the New York Times charged $828 to receive the newspaper delivered to your home every day for a year. Journalist Timothy Noah discovered, however, that when he called up the newspaper and threatened to end his subscription, he was offered a 50 percent discount. He became convinced that anyone who called up and threatened to end his or her subscription would be offered the same discount. Briefly explain whether the New York Times is practicing price discrimination.

In order to establish whether New York Times did practice price discrimination or not, it is important to begin by understanding what price discrimination implies. Norman (1999) defines price discrimination as a scenario where a company charges different prices for a similar product when the price variation does not result from the differences in the cost of the product. At the same time, a firm must fulfill three fundamental conditions in order to practice price discrimination successfully. Firstly, a company must have the market advantage. This implies being in a position to control a larger share of a market. Secondly, the company must have the ability to segment the market for its goods in a manner that makes it impossible for customers who get the product at low price to sell it to other customers at a higher price. Lastly, a section of consumers in the market must be willing to buy the product than others. At the same time, the company selling the products must be able to identify (Norman, 1999).

Based on the definition of price discrimination and the conditions that must exist for a firm to practice price discrimination, it becomes apparent that New York Times, indeed, practiced price discrimination. This is because it

charged different prices for the same product, when the price difference was not necessarily caused by the differences in the cost of the product. This became apparent as New York Times agreed to offer Journalist Timothy Noah a discount of 50% anytime he threatened the company of his intension to end his subscription. Giving Noah with a discount of 50% implies that Noah would be paying $414 for the delivery of Newspapers, whereas other subscribers are charged $828. This amounts to price discrimination. Furthermore, New York Times has a market power which enables it to segment its product in a manner that makes it impossible for customers who get the Newspapers at low price to sell the same newspaper at a higher price. Therefore, it can strongly be concluded that New York Times did practice price discrimination.

Reference

Norman, G. (1999). The economics of price discrimination. New York, NY: Edward Elgar.