

# Price discrimination in movie tickets



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## **Introduction**

As other service industries, according to the consumers' personal, cinema delimit different movie tickets, and charge three different prices for its customers: one for adults, one for students, and one for seniors. The cinema set up different prices for the same movie, its purpose is to pursue a maximum profit. Elderly people and students are charged at low prices for their large elastic demand, and the cinema charge adults by higher ticket prices due to adults' smaller elastic demand. The economic principle behind this phenomenon is namely the price discrimination, providing same goods or services to customers implement different prices. Firstly, this essay will discuss the definition of price discrimination and its forms. Then, it will analyze the reasons why a cinema charges three different prices for its customers from the perspective of price discrimination. Finally, it will evaluate the cinema's three different prices policy for customers.

## **Price discrimination and its forms**

Price discrimination is to establish basic needs, detente demand fluctuation and stimulating consumption. The enterprise provides the same kind of products to different customers at different prices, and it meets different requirements of customers. Price discrimination could be subdivided in degrees depending on market and the ability of consumers paying high or low price, namely the ability of elastic demands of consumers (Corsetti & Dedola 2005). Such price discrimination is implemented in three degrees. The first degree discrimination is the most extreme form of price discrimination. In this form, the seller is not decided to differentiate to different consumption ability of various groups. The second degree

discrimination is pricing general according to consumer purchase quantity size. The third degree discrimination is the most common form of difference pricing. According to the different demand of the price elasticity, it could differentiate customers or market. Generally, on big price elasticity market, it is a low price, and for small price elasticity market, the price a little higher. In addition, the third degree, can also according to the price difference between the different geographical position and external image of products. Enterprise in different locations, and products and services coming from different location make the different prices, including the retail business (Cataluña, a 2004). The regional prices of drugs are different by the pharmaceutical firms across Central American countries (Rojas 2009).

### **Reasons why a cinema charges three different prices for its customers from the perspective of price discrimination**

The cinema service belongs to the third degree price discrimination, is according to the differences between their individual characteristics of consumers to set up market segments. In this form, the seller from each group consumers gain profit maximization. For the cinema business, the elderly and the students are considered to have greater demand elasticity, fare is low and they pay less. Meanwhile the adult group has a bigger ability to pay higher price, and from that the cinema can realize the maximization profit.

According to the above-mentioned economic theory, there are 5 major reasons for cinema to carry out three different prices for its customers. (1) The market must be subdivided into individual market segmentations by different consumer demands. Movies' price also can be confirmed according

to customers' age and consumption level in all market segments. To the cinema, the consumption elastic demand of adult group is small and movie fare is higher. But the old and student's elastic demand is big, in order to attract this part of the population to go into the cinema, it has to implement price far lower than adult ticket fare. (2) Every market must be separated from each one. In the market segmentation with purchase goods at lower prices, the customers could not sold them at high price to others. Adult cannot directly buy the low price movie ticket. By adopting different colors and par, increasing management personnel for inspection, it can guarantee subdivision market mutual separation independence. (3) Whether the price discrimination is reasonable or not, it may affect a monopolist earns higher profits and individual consumers gain or lose (Cowan 2007). For the free economic market, the cinema could set up its prices for every movie to some degree. (4) Market segments should make sure that the cost from maintaining price discrimination does not exceed its benefit. Executing different prices to different groups of people, the income from higher price on adult could make up loss from the old and students at lower price, realizing profitability in general. (5) The differential prices could not cause customer aversion and dissatisfaction, and it must be legal. Adult has higher income, and are enough to pay higher fare reasonably. Students and the elderly have no income, charging them for low price could protect the benefit of most people.

## **Evaluation about the cinema's three different prices policy for customers**

The strategy of price discrimination has obvious advantages. It could prompt consumption demand uniformity, and avoid enterprise resources of idle or seams. And it also improves the competitiveness of the movie industry and promotes industry development, help enterprises to expand sales, speed up the capital turnover, realizing profit maximization. In order to improve the rationality of determine different prices, it should make surveys of all consumers. To find out the differences between each group's elastic demands, it should understand the composition of consumer groups, consumer behavior patterns and consumer psychology (Gourville & Soman 2011).

## **Conclusion**

In conclusion, the cinema adopts different fares for three groups: students, adults and old people, using the price discrimination strategy to maximize profit target. The three different groups of people form the separated segment market, and the establishment of the third degree discrimination is beneficial to most of people. The strategy of price discrimination helps to promote enterprise's development, to realize the profit maximization. To set reasonable segments' prices, it should to strengthen supervision on each segments of the movie market, make sure people's consumption demand and elastic demand, so that the third degree price discrimination for the cinema charges for three different groups at different prices.