Why price discriminate

Business

Price discrimination is the practice of charging different prices for similar goods at different places or to different individuals. Businesses engage in this practice with different objectives and foreseen benefits. This essay summarizes the article “ Price Discrimination” written by Mark Armstrong in which the reasons for this practice are elaborated.

According to Armstrong (2006), price discrimination varies among different firms in the industry as it depends on objectives of the firm in a particular area and among different individuals. Price discrimination could lead to efficiency in the price levels of different commodities and could enhance competitiveness in the market. This means that some markets could be shut down or open due to increased price discrimination. The article emphasizes that price discrimination also has the capacity to affect the output that is produced by particular firms in the industry. The article asserts that most firms engage in price discrimination with the objective of controlling the market, hence, they have a competitive advantage.

The charging of different prices in the market will easily lead to the acquisition of this competitive advantage and survival of different firms in the industry. This is principally achieved in those areas where lower prices are charged. The company will become stronger gradually and attract more customers due to lower prices. Price discrimination is also aimed at increasing the profitability level of the organization. According to the article, price discrimination involves charging varied prices in different place and among different individuals.

Businesses charge lower prices in some regions as a result there is a larger need to compensate those prices with higher ones in other places. This ensures that there is a high level of profitability maintained within the organization. Thus, price discrimination is intended to achieve maximum sales and boost the company’s performance.