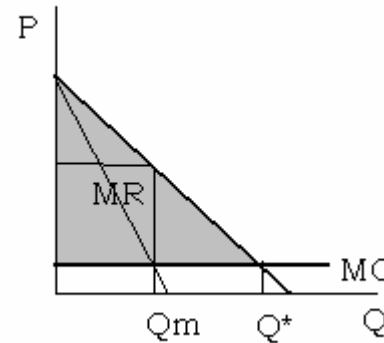


Willingness to Pay in Price Discrimination

- Objective: A firm with market power is attempting to maximize profits by charging each consumer the maximum price they are willing to pay for a good or service and therefore capturing their consumer surplus. See graph.
- “The firm must know or be able to infer consumers’ willingness to pay for each unit, and this willingness to pay must vary across consumers or units. That is, the firm must be able to identify whom to charge the higher price.”
- Although, in practice knowing each individual’s willingness to pay is not usually possible, firms still practice nonuniform pricing but by charging different groups of consumers different prices based on their willingness to pay.
- This differentiation of consumers is based on factors such as income, location, or personality types.

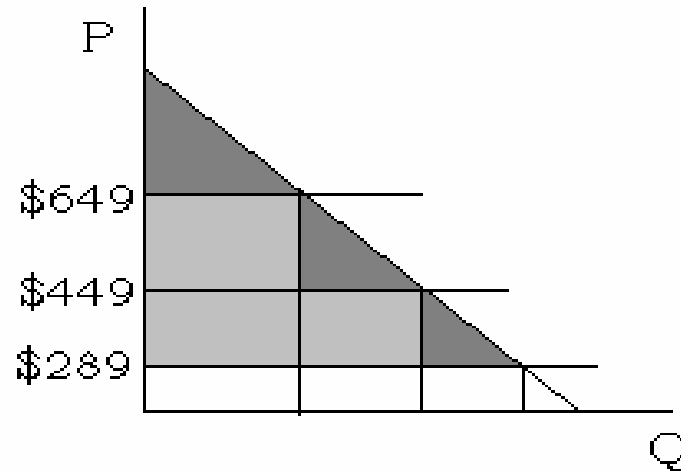


Booth Creek exercises this principle of price discrimination through the pricing of their “Double Whammy” season passes. The different types of season passes include:

- Double Whammy Value : \$289.
No Saturdays or Blackout Days.
- Double Whammy Limited: \$449.
No blackout days
- Double Whammy Unlimited: \$649.
No Limitations
- Double Whammy College Limited: \$249.
No blackout days

All of these season pass offer the all season dual access to both Sierra and North Star Ski Resorts.

- The higher price ticket is most likely most attractive to those in higher income brackets if you take into consideration that those with a higher wage have a higher value for their time.
- The higher valued time infers that they would extract more utility from a more flexible Ski schedule.



- Welfare effect: Output for perfect price discrimination is still efficient even though consumers are poorer but in this case there are still unexploited opportunity for trade and therefore the Booth Creek pricing is not efficient.

- According to anti-trust it is not a violation to price discrimination among final consumers but it is a violation to price discriminate among firms so as to affect their “competition” under the Robinson-Patman Act

- Market Power and Third-Degree Price Discrimination Presentation
- Today we'll be talking a little bit about Market Power with particular emphasis in Third-Degree Price Discrimination practices in ski resorts, and we'll be focusing on Sierra at Tahoe and Northstar, who are owned by the parent company Booth Creek.
- Before we start, we're going to recap on some specific conditions for Price Discrimination:
- A firm must have some market power (the ability to set price above marginal cost profitably); otherwise, it won't be able to charge any consumer more than the competitive price.
- The firm must know or be able to guess consumers' willingness to pay for each unit, in our case, lift tickets and this willingness to pay must vary across consumers or units. That is, the firm must be able to identify whom to charge the higher price. Similarly, if each individual's demand curve slopes down, the firm may be able to charge a different price for the different units any one consumer purchases.

- A firm must be able to prevent or limit resales by customers who pay the lower price to those who pay the higher price. Any attempt to charge one group a higher price than another is doomed to fail if resales are easy. If the group charged the lower price can resell to the other groups at a lower price than the monopoly charges them, no one in the latter group would buy directly from the firm.
- To satisfy the first condition of price discrimination, there is one assumption we're making. To quote the book directly:
- “Some economists and lawyers argue that one should define a market and then calculate the market share of the firm under analysis as an approximation of its market power. In an attempt to reach some workable solution to the problem of determining market power, analysts and courts often define a market and then construct a measure of market share.”
- Booth Creek by this definition has market power since it has the advantage of owning two resorts, NorthStar and Sierra while resorts like Kirkwood and Squaw are owned by their respective companies that don't own more than one resort. We understand that actual numbers of customers who go to these ski resorts should be the determinant of market share and thus market power, but since we couldn't find actual, reliable data, we are making the assumption that the ownership of the number of resorts can be considered market power.

- We can also assume that NorthStar and Sierra have a certain degree of market power in their respective locations since if a skier or snowboarder has the desire to go to a particular mountain with these type of trails, or wants to use these facilities, then they have to go to this particular mountain, which is located at one of these resorts. In other words, each resort is not exactly the same since each resorts offers different ski trails and facilities, so ski resorts can mark-up the price a little based on the fact that they are the only resort to offer this kind of trail or facility.
- Prevention of Resale
- Most of the time it is easy for a resort to prevent reselling of their lift tickets since you have to go directly to the counter of the resort to purchase your lift ticket. Also, the lift ticket will specifically say if it is an adult ticket, child ticket, or senior ticket, with the date marked on it, which lift operators check pretty regularly before letting anyone on to the lift, so it's practically impossible for instance, to buy a child ticket and try to resell it to an adult at a higher price than you paid for but lower than what that adult would pay if he or she went to the counter themselves.

- However, there is one particular case that I'm going to discuss where resell does occur sometimes and is related with the Double Whammy Pass. If a skier or snowboarder has the Double Whammy Pass and forgets to bring it one day, they can go to the ticket window and tell the cashier that they've forgotten it, and what will usually happen is that the cashier will usually just I.D. the person and issue them a lift ticket that is good for that day only, and in most cases, doesn't block the pass. Sometimes, the cashier doesn't even I.D. the person. The passholder then goes to the parking lot and resells that one ticket at a discounted price, usually about 30 or 40 dollars, which is about 20 dollars cheaper than a regular day only pass.
- In this sense, the Double Whammy Season Pass Holders are the consumers with the higher price elasticity to whom Booth Creek sells a discounted product to. The day-goers, who don't feel it's worth it to shell out the extra hundred bucks for a pass since they can't come up as often can be seen as the consumers willing to pay the higher price to ski for a day. Booth Creek is able to price discriminate between the two kinds of customers, but this price discrimination is thwarted when the consumers with the higher price elasticity, the passholders, resell those day tickets to the consumers with a lower price elasticity, the day-goers, and thus shortchanging Booth Creek the revenue that is made from the day-goers.