

# Internet Price Discrimination

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Slides & Paper:

[www.rsmith.umd.edu/tbpp/jbailey/pub](http://www.rsmith.umd.edu/tbpp/jbailey/pub)

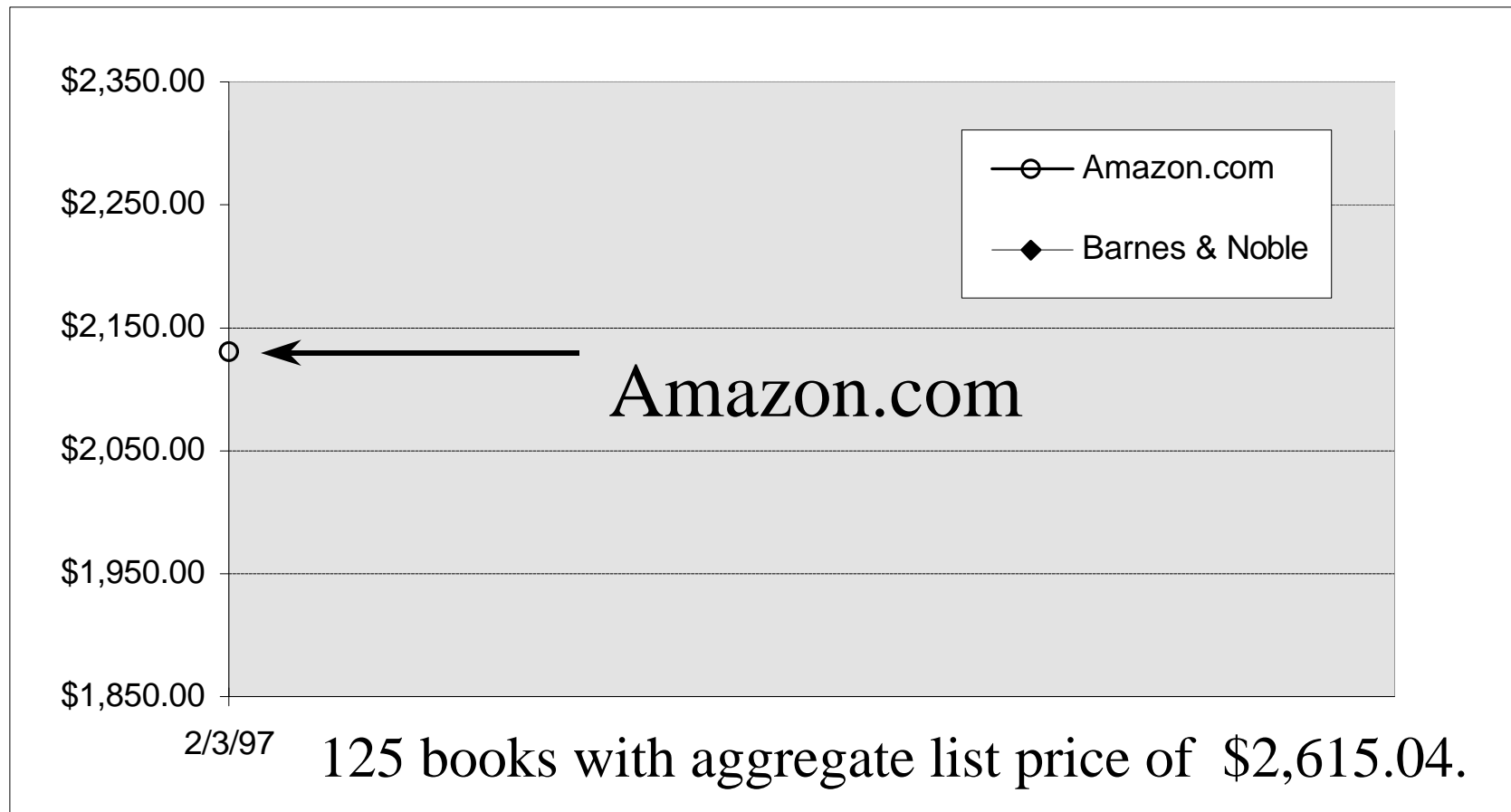
# Adam Smith

“When by an increase in the effectual demand, the *market price of some particular commodity happens to rise a good deal above the natural price, those who employ their stocks in supplying that market are generally careful to conceal this change*. If it was commonly known, their great profit would tempt so many new rivals to employ their stocks in the same way, that, the effectual demand being fully supplied, the market price would soon be reduced to the natural prices, and perhaps for some time even below it.” (Smith 1776, p. 67) [emphasis added]

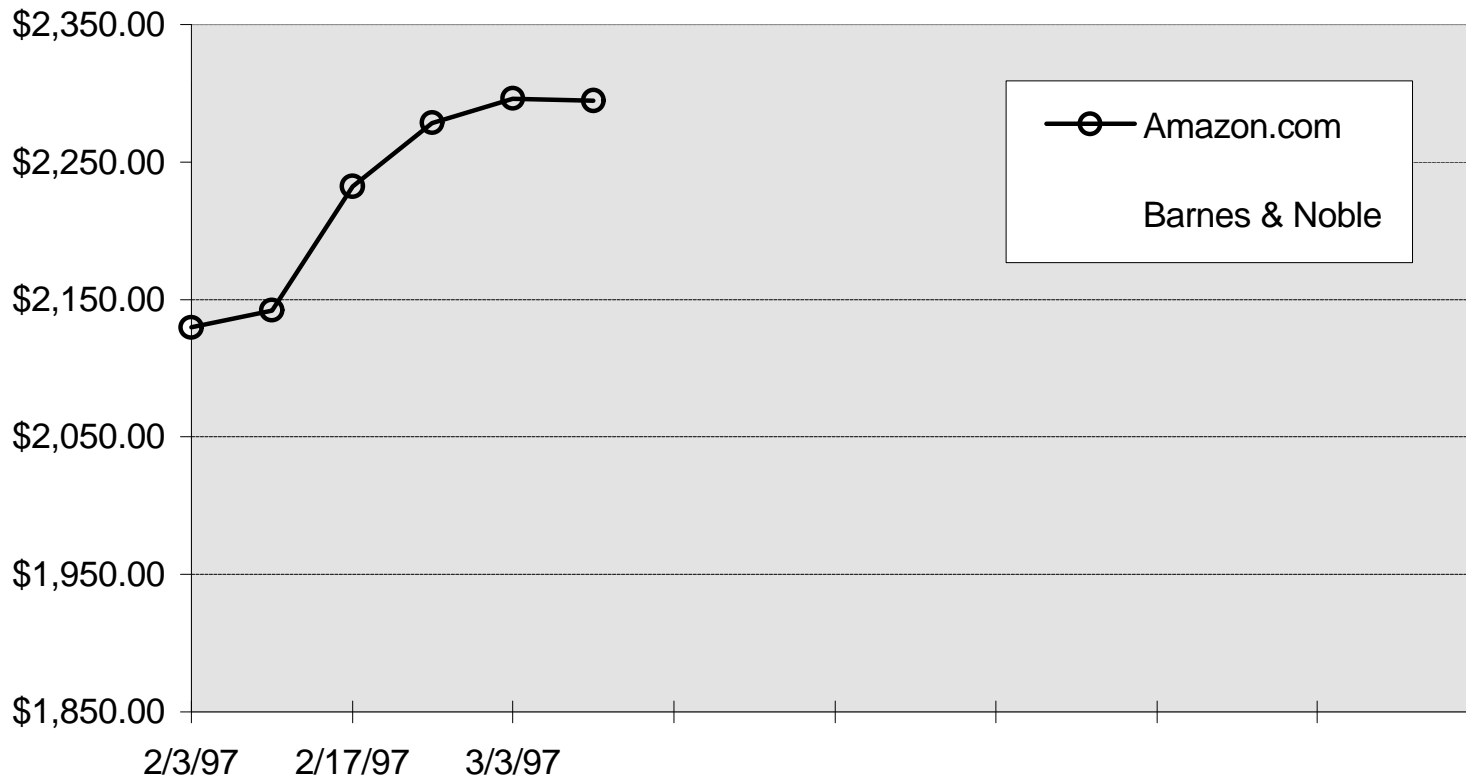
# Dynamics of Market Friction

- Rate of change
  - an action can be immediately observed by a competitor
  - response can be immediate
- Menu costs
  - the costs of changing a price
  - Internet may reduce menu costs

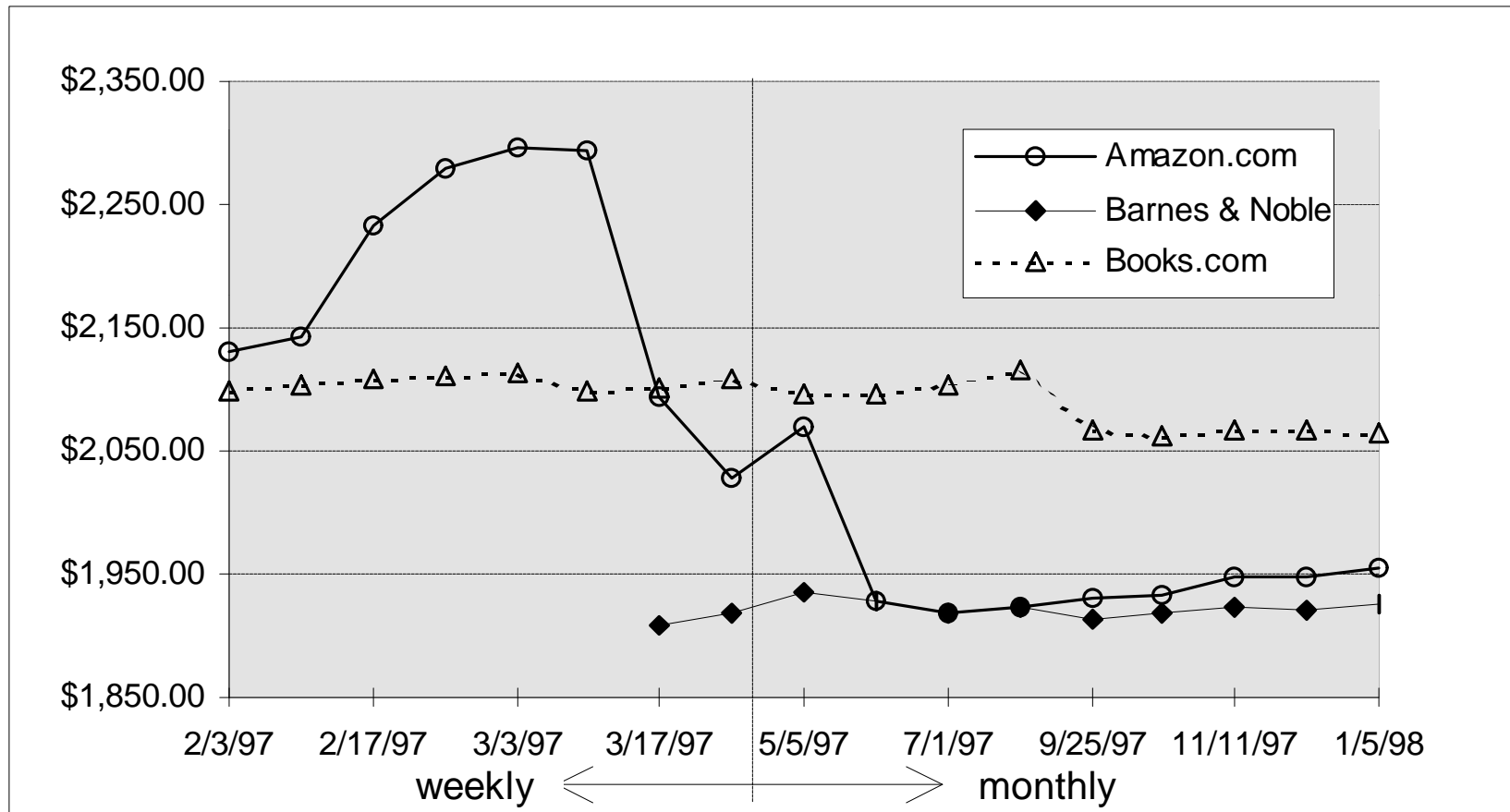
# Amazon.com vs. Barnes & Noble



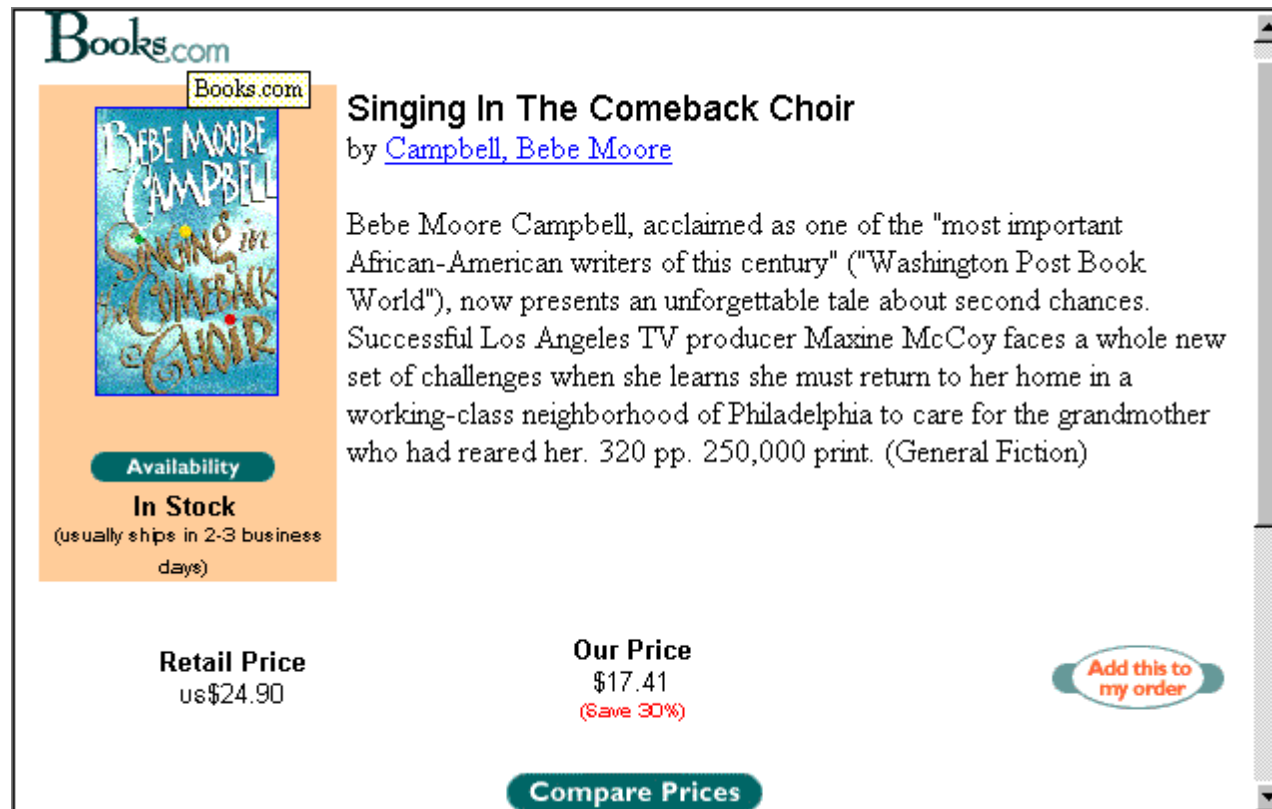
# Amazon.com vs. Barnes & Noble



# Amazon.com vs. Barnes & Noble



# Books.com: Higher Price



The screenshot shows a product page on Books.com. At the top left is the Books.com logo. Below it is a small 'Books.com' badge. The book cover for 'Singing In The Comeback Choir' by Bebe Moore Campbell is displayed on the left. To the right of the cover, the title and author are listed. A paragraph of text describes the book as a tale about second chances, featuring a TV producer returning to Philadelphia to care for her grandmother. Below the text, the availability is listed as 'In Stock' with a shipping note. At the bottom, the retail price is \$24.90 and the current price is \$17.41, marked as a 30% discount. There are buttons for 'Add this to my order' and 'Compare Prices'.

**Books.com**

**Singing In The Comeback Choir**  
by [Campbell, Bebe Moore](#)

Bebe Moore Campbell, acclaimed as one of the "most important African-American writers of this century" ("Washington Post Book World"), now presents an unforgettable tale about second chances. Successful Los Angeles TV producer Maxine McCoy faces a whole new set of challenges when she learns she must return to her home in a working-class neighborhood of Philadelphia to care for the grandmother who had reared her. 320 pp. 250,000 print. (General Fiction)

**Availability**  
**In Stock**  
(usually ships in 2-3 business days)

**Retail Price**  
us\$24.90

**Our Price**  
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(Save 30%)

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# Books.com: Compare Price

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PRICE COMPARISON

Title: **Singing In The Comeback Choir**

Wed Apr 08 16:55:06 1998

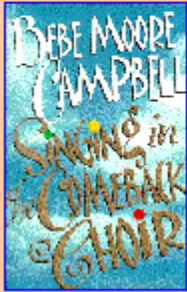
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**Singing In The Comeback Choir**  
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**Availability**  
**In Stock**  
(usually ships in 2-3 business days)

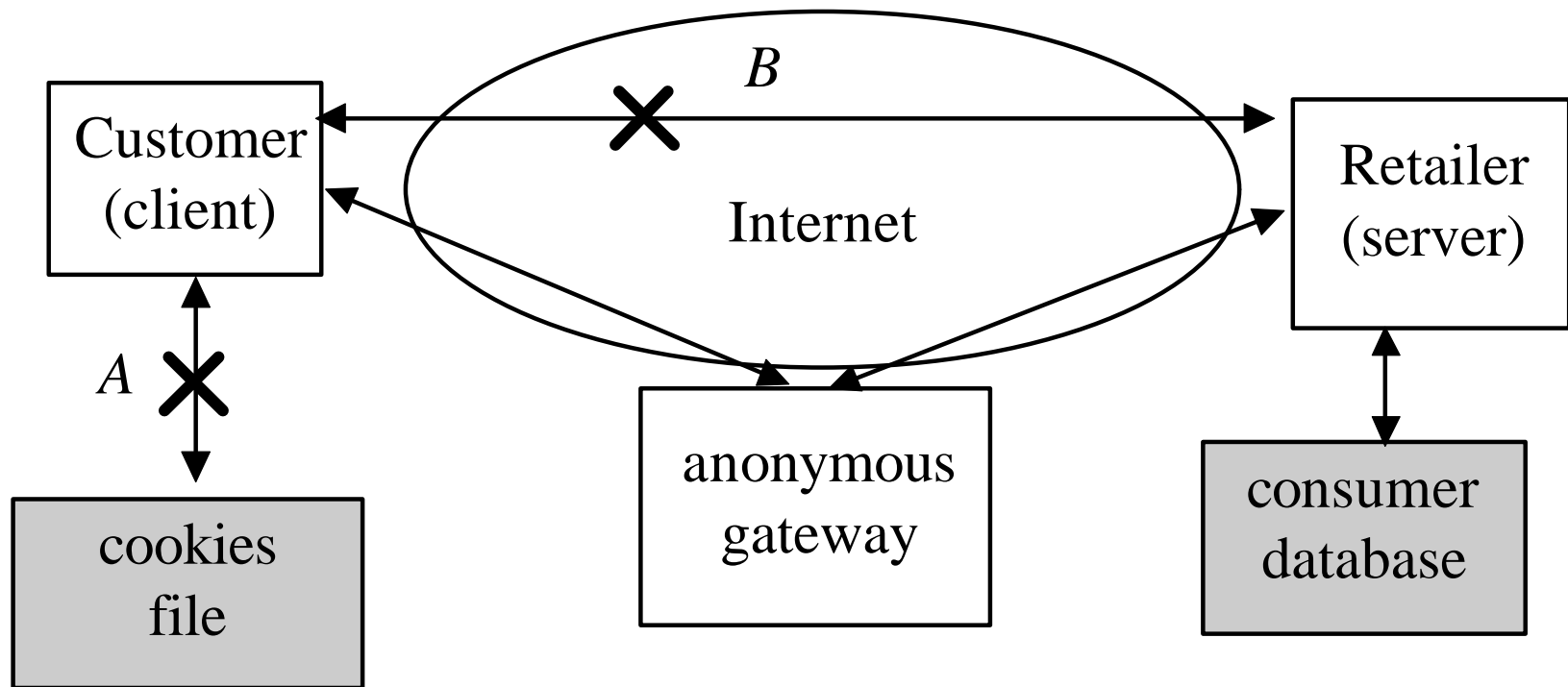
**Retail Price**  
us\$24.90

**Our Price**  
\$14.67  
(Save 41%)

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# Consumer Response to Internet Price Discrimination



# Internet Price Discrimination

- An algorithm can set a price dynamically
  - SRMC  $\Rightarrow$  \$0
  - e.g. Books.com
- Consumer information can be used for price discrimination approaching first degree
- Consumers can choose to block cookies and/or create an anonymous presence