

15.567 Reading Guide

Session 3: Differential Pricing

In the next few classes, we will focus on understanding the opportunities and challenges of selling and buying information goods. A foundation for this understanding begins with differential pricing strategies, including a look at their pros and cons. As we will see, signaling and Screening are related concepts and important in situations of asymmetric information.

Required Readings

Varian, H. (2000) "Buying, Sharing and Renting Information Goods" *The Journal of Industrial Economics*, Vol. XLVIII, Number 4, December 2000.

Schoder and Talalayevsky, The Price Isn't Right, *Wall Street Journal*, Aug 23, 2010.

Evan Miller, "Golden footballs and the Economics of Groupon" May 2009
<http://www.evanmiller.org/golden-football.html>

Daniel Hamermesh "What Do Books and Roses Say About Discounting?" February 23, 2009.

Linda Wertheimer, "New Pricing Plan Soon to Be For Online Music" NPR, July 27, 2009.

Optional: (Not in reading packet)

Shapiro and Varian, Ch. 2 Pricing Information., Ch.3 Versioning Information.

Tirole (1989) *The Theory of Industrial Organization* Chapter 3: Price Discrimination
Read pages 133-152, but skip subsection 3.3.2 (p 148-149).

Shiller and Waldfogel "Music for a Song: An Empirical Look at Uniform Song Pricing and its Alternatives" Working Paper, Wharton School, June, 2008.

Study Questions

Please think about the following questions as you do the readings. Be prepared to explain your answers in class.

1. How would you explain the observed pricing strategies for books and roses around April 23 in Catalonia?
2. Consider an information good or service provided by a company with which you are familiar (e.g. a former or future employer). How can "versioning" be used to increase its profits? Be specific.
3. What are the barriers to the use of differential pricing for information goods? Why might it be difficult to engage in versioning in a competitive market? How can you avoid these problems?
4. What do you think of Groupon's pricing strategy?

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