Journal DOI: 10.36713/epra1013|SJIF Impact Factor (2021): 7.473 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 9 | Issue: 7| July 2022 -Peer-reviewed Journal

PRICE DISCRIMINATION IN MONOPOLISTIC COMPETITION MARKET
(NON- COMPETITIVE MARKET)
"Strengthens Competition and Increases Efficiency of the Economy"

Saraswathi C
Lecturer in Economics, Bengaluru, Karnataka

ABSTRACT
This paper guides the importance of Micro Economics theory and practice through the real world application in the Non-Competitive Market Structure. The market structure consists of 4 markets namely, Monopoly market, Oligopoly market, Duopoly market and Monopolistic Competition Market. Each market has its own importance and implications and also provides in depth insight into an industry that is of major economic significance in this competitive business world. This paper mainly focuses on Monopolistic competitive market structure how price discrimination strengthens competition and increases efficiency when the number of firms is fixed and competitive. It analysis producer and consumer welfare relative to discrimination price through demand and supply effect.
KEY WORDS: - ***Monopolistic competition, price discrimination, producer and consumer surplus, strengthens competition and increases efficiency of the economy.***

INTRODUCTION ABOUT THE TOPIC

Monopolistic Competitive market is a non-competitive market popularized by Prof. E H Chamberlin of Harvard University through his famous book "Theory of Monopolistic Competition" in 1933. Monopolistic competition, in which there are many seller producing and selling differentiated product but not perfect substitutes. The distinguishing characteristics of this market are that it is a blend of competition and produces the differentiated product. Differentiation in the product means the products are similar in the sense they perform same basic function, yet they are different from each other, it is achieved through advertisement, size of the product, attractive packaging, colour, design, trade mark, brand name etc. for example, it includes all basic and luxuries goods such as shampoo, soap, toothpaste, tea, biscuit, bike, car, television, refrigerator, mobile etc.

Monopolistic Competition firm is a price maker. A firm fixes its own price of its product, the firms are distinguished on the basis of their brand names; therefore, each monopolistic firm enjoys a monopolist position. This is because no other firm can produce and sell its products under the same brand name. Here prices of the products are determined on the basis of degree of competition. The market structure consists of large no of buyer and seller for a product, when the firm tries to produce differentiated product the price discrimination plays an important role in determining the price of the product.

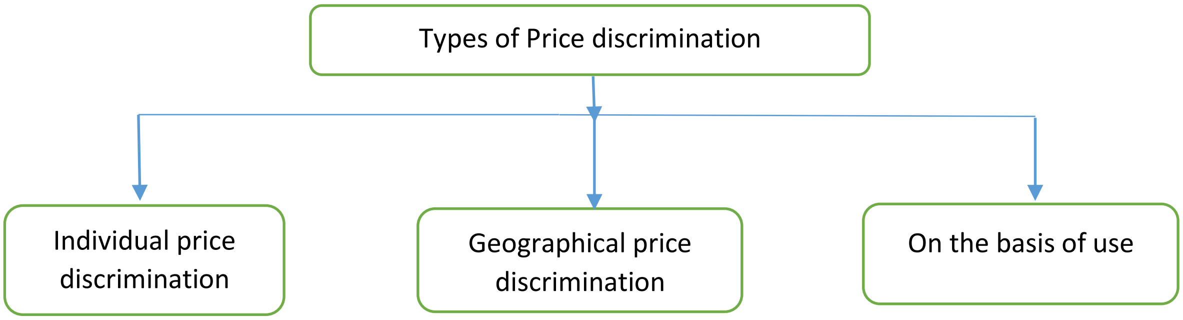
WHAT IS PRICE DISCRIMINATION?

"Price discrimination is a pricing strategy of the firm or market that charges different prices to the consumer for identical goods and services". To discriminate the price of the product the firm must be a degree of monopoly power and need to produce differentiated product in which monopolist has complete control over the supply of the product. If the firm is operating in a market with homogeneous product of perfect competition this pricing strategy would not be possible, as a competitive firm is not in a position to fix the price of the product because price is determined under the demand and supply forces.

Journal DOI: 10.36713/epra1013|SJIF Impact Factor (2021): 7.473 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 9 | Issue: 7| July 2022 -Peer-reviewed Journal

TYPES OF PRICE DISCRIMINATION

There are 3 types of Price discrimination, they are as follow;



1) **Individual price discrimination**: - Prices are charged according to consumer income level. For example, Doctors charges different fee from rich and poor patients. It means different prices are charged from different individuals.
2) **Geographical price discrimination**: - When the monopolist charges different prices at different geographical places for the same product to the different consumer. It is also called dumping method of price fixing to maximize firm's profits.
3) **On the basis of use**: - Different prices are charged on the basis of use of product. For example, electricity board charges lower price for the domestic consumption and higher price for the commercial consumption. It means price are fixed on the basis of demand and supply effect.

DEGREES OF PRICE DISCRIMINATION

When firms make differentiation in the product (product differentiation), each firm tries to maximizes its profit in the long run. The monopolistic competitive firms selling cost is very high to achieve its market goal such as, challenges, create demand for produced product, making its own brand name, trade mark, attractive packaging etc. firm follows all these strategies to reach profit maximization where firms total revenue is equal to its total cost(TR=TC). Based on these Degree of competition price discrimination classified in to,

1. First degree price discrimination
2. Second degree price discrimination
3. Third degree price discrimination
    1. **First degree price discrimination: -** This is also known as perfect price discrimination; where consumer is failing to enjoy any consumer surplus. The monopolist charges the maximum price to achieve its goal that each consumer is willing to buy the goods and services. For example, this type of price discriminations is practiced by the Lawyer and Doctors.

    2. **Second degree price discrimination: -** This price discrimination involves charging consumers a different price for the quantity of goods and services consumed. Example includes, mobile internet data recharge plan for month or year, cable network plan to watch television etc.

    3. **Third degree price discrimination: -** It refers to price discrimination in which buyers are divided in to different groups and different prices are charged from these groups depending upon what they are willing to pay. This is also known as group price discrimination. Here monopolist divides the entire market in to sub markets therefore it is also termed as market segmentation.
    For example, the groups are divided in to age, sex and location, for instants students get discount in museums, historical places, entertainment places etc. the railway and roadway transportation charges lower fares from student and senior citizen etc.

Journal DOI: 10.36713/epra1013|SJIF Impact Factor (2021): 7.473 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 9 | Issue: 7| July 2022 -Peer-reviewed Journal

REVIEW OF LITERATURE

This paper is the part of literature of price discrimination which strengthens the growth of firm and improves the growth. According to Hal R. Varian (June 4, 2019), "Price discrimination is one of the most prevalent forms of marketing practices. One may occasionally doubt whether firms really engage in some of the kinds of sophisticated strategic reasoning economist are found of examining, but there can be no doubt that firms are well aware of the benefits of price discrimination".

According to Simon P. Anderson and Regis Renault (Aug 2008), "Price discrimination arises when a firm sells different units of the same good at different prices. This applies perfectly to cases in which certain groups of consumer benefit from special tariffs or nonlinear pricing where the price per unit depends on the number of units brought".

OBJECTIVE OF THE STUDY

- To know about the Monopolistic Competition Market.
- To understand the importance of non- competitive market.
- To understand the concept of price discrimination in Monopolistic Competitive Market.
- To know about consumer surplus and producer surplus.
- To understand how price discrimination plays very important role in product differentiation market and creates efficiency to improve the growth of an economy.

RESEARCH METHODOLOGY

The study is based on the Secondary data. The data was obtained through Journals, reports, publication of professional and research organizations.

Producer and consumer welfare

a) Producer surplus

"Producer surplus is the difference between what producers are willing and able to accept, and the price they actually sell for".

The Monopolistic competition is a market in which many producers' produces differentiate product. There are slightly different products compete. Here product cost is above what perhaps achieved by perfectly competitive companies, but consumer interests the product differentiation. Examples are - for example, it includes all basic and luxuries goods such as shampoo, soap, toothpaste, tea, biscuit, bike, car, television, refrigerator, mobile, service sector etc.

The producer surplus can be explained as follows: -

1. Price discrimination, by charging different prices monopolistic firm can increase the sale of the produced goods and services.
2. The firm can increase internally and externally its capacity and economies of scale.
3. The firm is able to turn consumer surplus into producer surplus. This is possible with degrees of price discrimination.
4. The product differentiation of the monopolistic firm attracts consumers demand based on their taste and preferences and also creates its market for produced goods and services.
5. The monopolistic firm can utilize low price to encourage more purchase at a specific season and also earn more profit. etc.

b) Consumer surplus

"Consumer surplus is the difference between what consumers are willing and able to pay and the price that they actually pay".

The consumer surplus can be explained as follows: -

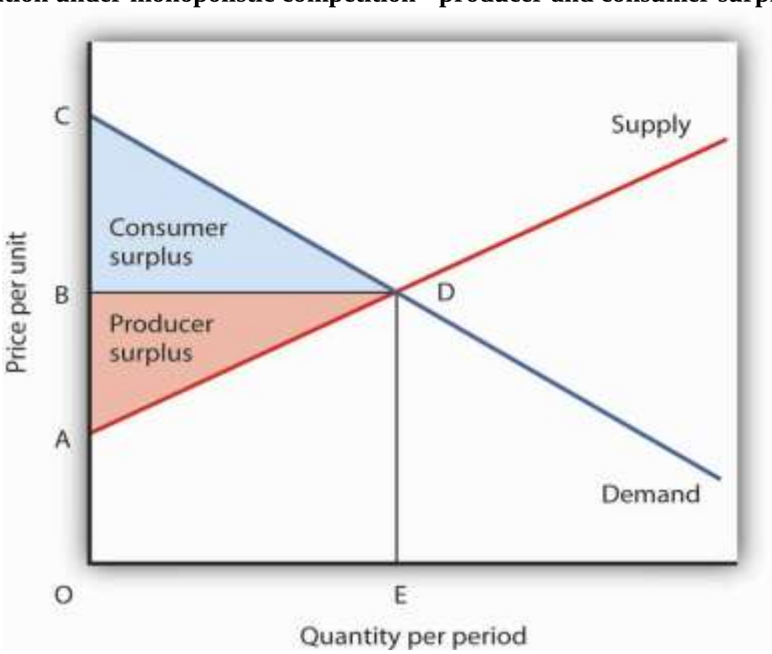
1. The consumer gets benefit from the price discrimination. For example, to sell more, firm may provide coupons and discounts on its products.
2. Low income consumers may be able to benefit from cheaper prices.
3. Product differentiation markets are Consumer oriented market which increases consumer surplus and welfare. For example, now a day's online sales like Amazon, Flip kart, Myntra, Meesho etc. works on consumer satisfaction.

Journal DOI: 10.36713/epra1013|SJIF Impact Factor (2021): 7.473 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 9 | Issue: 7| July 2022 -Peer-reviewed Journal

4. As a result of price discrimination some groups of consumer such as older people or students can be benefit from lower prices. Example, low transportation charges, museum entry fee, historical place visiting fares etc.
5. Consumer can consume greater variety of goods at different prices.

Let us understand this concept with the help of diagram.

Price discrimination under monopolistic competition - producer and consumer surplus



The above diagram explains that ox axis represents quantity per period and oy axis represents market price per unit. The demand curve slopes negatively downwards and the supply curve slopes positively upwards. The market demand curve and market supply intersect at the point 'D' which shows equilibrium point. In this diagram consumer is willing to pay (point 'C') is more than actually what consumer paid (point 'B'), therefore, the triangle area CBD is considered as consumer's surplus.

The firm actually receives revenue from the sale of quantity 'E" is more (point 'B') than the firm is willing to fix the price (point 'B') of the good. Therefore, the triangle ABD is considered as producer's surplus.

Strengthens Competition and Increases Efficiency of the economy (Findings):

1. **Product differentiation**
   Product differentiation is a market level strategy in which firms attempt to create differences between their products and those offered by competitors. These differences may lead to competitive advantage to the firm to reach its specific target. For example, we can consider two and 4 wheelers manufacturing companies in India like Bajaj, Yamaha, TVS, Honda, Suzuki, Maruthi, Tata motors etc.

2. **Brings more revenues for the seller**
   Price Discrimination brings more revenues for the seller because where competition increases between firms while making differentiation automatically it brings revenues to the seller it is called a dynamic efficiency of the firm.
3. **Social and economic benefit**
   Price discrimination is environment friendly, it allows firms to use up spare capacity which could reduce the level of waste, this can be seen in the super market where price discrimination allows them to sell more goods. From these activities of the firm, it can bring social and economic benefit which allows economic efficiency.

Journal DOI: 10.36713/epra1013|SJIF Impact Factor (2021): 7.473 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 9 | Issue: 7| July 2022 -Peer-reviewed Journal

4. **Increases the investment**
   Price discrimination encourages producers to invest on their competitive product. It leads to increases in the investment, this causes indirectly increases in bank saving and motivates capital adequacy this we call strengthens efficiency of the Economy.
5. **Increases Productivity**
   Price discrimination improves the productivity of each firm. For Example, D Mart – D Mart is one stop supermarket chain which aims to offer the consumers with a wide range of basic personal and home products at the most competitive price.
6. **Expansion of employment opportunity:**
   The monopolistic market structure creates its demand by making product differentiation through brand name, trade mark, advertisement, packaging etc. Therefore, here price discrimination plays very important role for profit maximization. Then the firm has to expand the employment opportunity to create its own demand which motivates the efficiency in production.
7. **Economies of Scale**
   The use of price discrimination may have other benefits to a firm for example allowing firms to create economies of scale. It allows the firms to be more efficient with its factors of production. Therefore, it increases the output and lower the long run cost.

CONCLUSION

The goal of price discrimination is to capture more of the consumer surplus, thereby maximizing producer surplus. It is natural that differential pricing forces and easily contributes to the economic efficiency. Especially which firm makes product differentiation it tries attracts consumer and also creates consumer oriented market, it increases the total output of the firm which strengthens competition and increases efficiency of the economy.

REFERENCES

1) *Economics: An Introductory analysis. - P. A. Samuelson, 1994.*
2) *"Price discrimination and social welfare," - H. R. Varian, 1985.*
3) *Price Discrimination" - Hal R Varian 2019*
4) *Price Discrimination, welfare and efficiency - https://www.tutor2u.net/economics/reference/monopoly-power-and-economic-efficiency-and-welfare*
5) *Monopolistic competition market - Prof. E H Chamberlin of Harvard University 1933*
6) *Price discrimination – Mellisa Horton 2021*
7) *Price discrimination and efficiency – Micro Economics*
8) *Price discrimination and information - Simon P. Anderson and Regis Renault (Aug 2008),*