Seminar

"Competition in Two-Part Tariffs Between Asymmetric Firms" *(in English)*

Professor Guofu Tan
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Biography:

Dr. Tan is currently a Professor of Economics at the University of Southern California. Previously, he held the positions of Associate Professor of Economics at the University of British Columbia and Associate Professor of Economics at the Hong Kong University of Science and Technology. His research focuses on the areas of industrial organization, antitrust economics, auction theory, and microeconomics. His most recent work is concerned with conditional pricing practices in competitive settings, including all-units discounts, two-part tariffs and nonlinear pricing, and platform competition in multi-sided markets. His research work has been published in such leading scholarly journals as the American Economic Review, Econometrica, Review of Economic Studies, RAND Journal of Economics, Journal of Economic Theory, Games and Economic Behavior, International Economic Review, and Journal of Development Economics, as well as many others.

Date: 5 June 2017 (Monday)
Time: 3:00pm – 4:30pm
Venue: WYL314, Dorothy Y. L. Wong Building

Abstract:

We study competitive two-part tariffs (2PTs) in a general model of asymmetric duopoly firms offering both vertically and horizontally differentiated products. We provide a necessary and sufficient condition for marginal cost pricing to be in equilibrium. The condition states that there is no correlation between each firm's efficient quantity and the difference between the efficient consumer surpluses offered by the two firms. This condition can easily be violated when the firms have asymmetric marginal costs or face asymmetric vertically differentiated demands. When the firms face symmetric demands but have asymmetric marginal costs, we show that in equilibrium the inefficient firm sets its marginal price below its own marginal cost and compensates this loss with the fixed fee, while the efficient firm sets its marginal price above its own marginal cost but below its rival's price. When the firms have identical marginal costs but asymmetric demands, we show that in equilibrium the firm with the vertically inferior product sets its price below the marginal cost, while the superior firm sets its price above the marginal cost. In each case, the inefficient firm "cross-subsidies" between the tariffs (fixed fee and marginal price). Finally, we extend our analysis to a general discrete choice model and show that our result on cross-subsidization holds for the asymmetric marginal costs model.

All Are Welcome
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