If One Price Is Good, Are Two Better?

Experimental Evidence On Pricing And Customer Antagonism

Andreas Leibbrandt

*Monash University*

Although most sellers have some freedom to set prices and some knowledge about differences in their customers’ willingness to pay, we often do not observe price discrimination. I use a novel experiment to gain insights into pricing and customer reactions to price discrimination. The study provides several new findings. First, most sellers price discriminate but rarely always. Second, the likelihood of price discrimination depends on the information environment and the customer pool. It is much more common when customers are unaware and if the differences in willingness to pay are large. Third, the reaction to price discrimination depends on its type. Customers are not deterred per se; they are less likely to buy if they are charged a higher price than another buyer and more likely to buy if they are charged a lower price. Fourth, occurrence and reaction to price discrimination is similar in monopoly and competitive market environments.