

Reply to Referee Report 2

“Oligopoly Price Discrimination, Competitive Pressure and Total Output”

(MS#3323)

Thank you very much for your comments and for your positive recommendation. I also enjoyed your discussion on the value of theoretical research.

In my opinion, what makes a research field important is mainly the quality of the questions it raises. This is the goal of Pigou (1920) and Robinson (1933) and the reason why there are currently a great many papers on this topic. Whether or not this is a “small literature” is a subjective matter. For example, Heidhues and Köszegi (2017, page 1050) refer to it as a “large literature”. Similarly, the study of the welfare effects of third-degree price discrimination has received attention from excellent economists who have published their research in top 5 journals (for instance, Leontief, 1940 *QJE*, Edwards, 1950 *E*, Schmalensee, 1981 *AER*, Varian, 1985, *AER*, Schwartz, 1990, *AER*, Nahata et al., 1990, *AER*, Weyl and Fabinger, 2013, *JPE*, Bergemann et al., 2015, *AER*, among others).

The term “market” or “submarket” is not necessarily defined in a geographical sense. As is usual in the literature of third-degree price discrimination, the firm is able to separate its consumers in different submarkets on the basis of some external characteristic as, for instance, age, location, sex, occupation, use, time of purchasing... The first example cited (about airline tickets) is out of scope of my analysis since it is required that the same good be sold in different submarkets. On the second example (about retail prices for different urban markets), the next comment may perhaps be clarifying.

With respect to the third paragraph, I would like to note a very recent paper by DellaVigna and Gentzkow (2019, *QJE*). They show that most U.S. food, drugstore, and

mass-merchandise chains charge nearly uniform prices across stores, despite wide variation in consumer demographics and competition. If they are right, it seems that “uniform pricing” is something empirically plausible.

On the other hand, from a strategic point of view, a firm may be interested in committing itself not to price discriminate (see, for instance, the literature on most-favored-nation clauses). Or it may occur that the antitrust laws restrict the firms’ pricing behavior. So, in order to assess anti-discriminatory laws like the Robinson-Patman Act, we have to compare the economic consequences of both price regimes, price discrimination and uniform pricing.

Finally, with respect to the last paragraph, I cannot say which type of price discrimination, second-degree or third-degree, is more interesting. Traditional wisdom, however, says that third-degree price discrimination is the most common case in real markets (see, for instance, Varian, 1989). Many different ways of price discrimination are engaged in the airline industry, and sometimes is not easy to classify them following Pigou’s classification. The kind of price discrimination mentioned in the referee report is usually considered as inter-temporal price discrimination, a particular case of third-degree price discrimination.

Again, thank you very much for your comments. I appreciate them very much and will certainly be useful for the new version of the paper.

References

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