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Abstract

Economic theory is inconclusive regarding the effects of banning third-degree price discrimination under imperfect competition because they depend on how the competing firms rank their market segments. When, relative to uniform pricing, all competitors want higher prices in the same market segments, a ban on price discrimination will reduce profits and benefit some consumers at the expense of others. If, instead, some firms want to charge higher prices in segments where their competitors want to charge lower prices, price discrimination increases competition driving all prices down. In this case, forcing the firms to charge uniform prices can increase their profits and reduce consumer surplus. We use data on Colombian broadband subscriptions to estimate the demand for internet services. Estimated preferences and assumptions about competition are used to simulate a scenario in which firms lose their ability to price discriminate. Our results show large effects on consumer surplus and large effects on firms' profits. Aggregate profits increase but the effects for individual firms are heterogeneous.
The effects on consumer welfare vary by city. In most cities, a uniform price regime causes large welfare transfers from low-income households towards high-income households and in a few cities, prices in all segments rise. Poorer households respond to the increase in prices by subscribing to internet plans with slower download speed.