

Perfect Price Discrimination: A Moral Transgression or a Mechanism for Inclusion?

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Abstract

The exercise of first degree or perfect price discrimination provides firms the opportunity to generate profits greater than those obtained by monopolies that operate by selling at a single price. Since the capture of all consumer surplus results in its conversion to monopoly profits, firms that can successfully implement perfect price discrimination have the potential to further dominate the market to the exclusion of potential competitors. Given the neoclassical economic objective of profit maximization, the accumulation of profits via first degree price discrimination connotes the perception that greed for greater wealth is a monopolist's primary motivator. As greed has always been impugned by ethicists, practitioners of first degree price discrimination rationalize their actions with the assertion (either explicitly or implicitly) that without the ability to perfectly price discriminate, financial duress would ensue with the eventuality that the firm would be compelled to shutdown leaving consumers without a provider of a service in high demand. Efforts to develop a mechanism that links neoclassical economic methodology with an ethical interpretation of the practice of perfect price discrimination have evolved through the applications of moral contractarian individualism with utilitarianism. Although at their most fundamental interpretations, inconsistencies between individual contractarian ethics and utilitarianism persist, nascent developments in the significance of social capital and societal acceptance of ethical norms in the formation of consumer preferences (in utility functions) provide a potential for, at the very least, cognizance of the existence of implicit contracts between firms that practice first degree price discrimination and purchasers of the monopolist's services. Hence firms that are able to imbue the perception of ethics in their objectives generate the social capital by conforming to moral behavior norms which foment implicit agreements with consumers to validate the practice of perfect price discrimination.