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Presentation Title

Price Skimming: Commitment and Delay in Bargaining with Outside Option

(with Jong Jae Lee)

Abstract

In this paper, we show that there exists an equilibrium in which the seller practices price skimming in the environment where the buyer's valuation and his outside option are private information, if and only if the buyer's outside option is non-negligibly zero. A unique feature of the equilibrium is that commitment is unnecessary for the seller to attain the maximum possible profit. This provides a theoretical support to the frequent use of price skimming in practice, without resorting to the commitment assumption that is often unconvincing. Our innovation lies in the use of the Coasean reversion (Ausubel and Deneckere, 1989) along with positive selection (Board and Pycia, 2014) under one rubric, for constructing the seller's equilibrium strategy. The non-negligibly zero outside option constitutes the necessary and sufficient condition for dissolving an inherent tension between the two.

Keywords

Outside option; commitment; price skimming; positive selection; Coasean reversion

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