4.3 Intertemporal Price Discrimination

Intertemporal price discrimination provides a method for firms to separate consumer groups based on willingness to pay. The strategy involves charging a high price initially, then lowering price after time passes. Many technology products and recently-released products follow this strategy.

**Intertemporal Price Discrimination** = charging a high price initially, then lowering price after time passes.

Intertemporal price discrimination is similar to second degree price discrimination, but charges a different price across time. Second degree price discrimination charges a different price for different quantities at the same time. Intertemporal price discrimination is shown in Figure 4.6.

![Figure 4.6 Intertemporal Price Discrimination, Graph One](image)

The first group has a higher willingness to pay for the good, as shown by demand curve $D_1$. This group will pay the higher initial price charged by the firm. A new iPhone release is a good example. Over time, Apple will lower the price to capture additional
consumer group, such as group two in Figure 4.6. In this fashion, the firm will extract a larger amount of consumer surplus than with a single price.

Intertemporal price discrimination can also be shown in a slightly different graph. The key feature of intertemporal price discrimination is a high initial price, followed by lower prices charged over time, as shown in Figure 4.7.

![Figure 4.7 Intertemporal Price Discrimination, Graph Two](image)

The concept of intertemporal price discrimination explains why new products are often priced at high prices, and the price is lowered over time. In the next section, peak-load pricing will be introduced.