

Pricing Mechanisms for a Durable Good Monopolist

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ABSTRACT

A *durable good* is a long-lasting good that can be consumed repeatedly over time. Theoretically less is known about durable goods than their more well-studied counterparts, perishable goods. However, on the practical side, durable goods abound and are very familiar to us. For example, many of the most important consumer items are (at least to some extent) durable, such as land, housing, cars, diamonds etc.

A *duropolist* is a monopolist in the market of a durable good – topically, duropolists include several well-known purveyors of digital goods. In this talk, we examine the strategic issues facing duropolists. Pricing a durable good is not as simple as it may appear. Specifically, whilst durable goods are more desirable to the consumer, it is questionable whether a duropolist has additional monopoly power beyond that of an equivalent monopolist for a perishable good. Indeed, quite the opposite may be true. In 1972, Richard Coase made the startling conjecture that, in fact, a duropolist has no monopoly power at all! The argument being that a duropolist is not, in essence, a monopolist: the firm does face stiff competition – not from other firms but, rather, from future incarnations of itself!

There have since been several proofs and disproofs of the conjecture for under assorted economic models and time horizons. We discuss this, and also real-world strategies that duropolists use to avoid the conundrum highlighted by Coase. Our main results are to quantify how well various price mechanisms perform. Specifically, we give tight bounds, for the finite time horizon case, on the relative profitabilities of these mechanisms in terms of the number of time periods and the total number of consumers. In doing so, we quantify the extent to which a duropolist can generate higher profits than an equivalent monopolist for a perishable good.