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 \(\PageIndex{1}\).

The first group has a higher willingness to pay for the good, as shown by demand curve \(\text{D}_1\). 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 groups, such as group two in Figure \(\PageIndex{1}\). 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 2. In this graph, the firm initially charges price $P_t$ to capture the high willingness to pay of some consumers. Over time, the firm lowers price to $P_{t+1}$, and later to $P_{t+2}$ to capture consumer groups with lower willingness to pay.

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.