







2.3.2 Tying (Shy chp 14)						
<ul> <li>How can tying be profitable?</li> <li>If consumers are heterogenous and value different goods differently, then a monopolist can increase its profits by tying the sale of one good to another.</li> <li><i>Example:</i></li> </ul>						
	Consumers' valuations	Products				
		Х	Y			
	Consumer 1	Н	L			
	Consumer 2	L	Н			
Industrial Organization - Matilde Machado 2.3. Other Marketing Strategies 5						

2.3.2 Tying	(Shy d	chp 14	)		
<ul> <li>The monopolist may foll</li> <li>No Tying:</li> <li>1) Sell each product t</li> </ul>	ow several s	trategies: ers, i.e. both cons	umers buy 2		
goods. Px=L; Py=L; I 2) Sell each good to c good: Px=H; Py=H; II	<ul> <li>goods. Px=L; Py=L; Π=2Px+2Py=4L</li> <li>2) Sell each good to only one type, i.e. each consumers buys only 1 good: Px=H; Py=H; Π=Px+Py=2H</li> </ul>				
1) is preferable to 2) i	f H<2L (for sma	all differences in va	aluations)		
valuations	Produ	Products			
	Х	Y			
Consumer 1	Н	L			
Consumer 2	L	Н			
Industrial Organization - Matilde Machado 2.3.	Other Marketing Stra	ategies	6		

2.3.2 Tying (Shy chp 14)								
(Pure) Tying:								
<ul> <li>Sell both goods together. Both consumers valuations for the two goods is H+L so the monopolist can charge: P(x+y)=H+L; II=2(H+L)&gt;max{4L,2H} which is higher than the previous strategy. The monopolist extracts all consumer surplus.</li> </ul>								
Consumers	Products							
valuations								
	Х	Υ	X+Y					
Consumer 1	Н	L	H+L					
Consumer 2	L	Н	H+L					
Industrial Organization - Matilde Machado	2.3. Oth	er Marketing Strate	gies 7					



2.3.2 Tying (Shy chp 14)						
<ul> <li>In contrast let's see an example of perfect positive correlation in the valuations of the two consumers</li> </ul>						
-	• Example: w.l.o.g. suppose $\alpha < 1$					
	Consumers	Product				
	valuations					
		Х	Y			
	Consumer 1	Н	L			
	Consumer 2	αH	αL			
Industrial Organization - Matilde Machado 2.3. Other Marketing Strategies 9						













