

Price Discrimination via Second-Hand Markets

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Abstract

Consumers have heterogenous tastes for new and used goods, and second-hand markets involve transactions costs. A monopoly seller may gain or lose from the existence of a second-market: locally it may prefer lower transactions costs so it can strangle the used market. The monopolist uses the second-hand market as an indirect device to achieve a form of second-degree price discrimination. If the monopolist can control the quality of its product when used, it may wish to deteriorate this quality to worthless, or else to have it "as good as new."