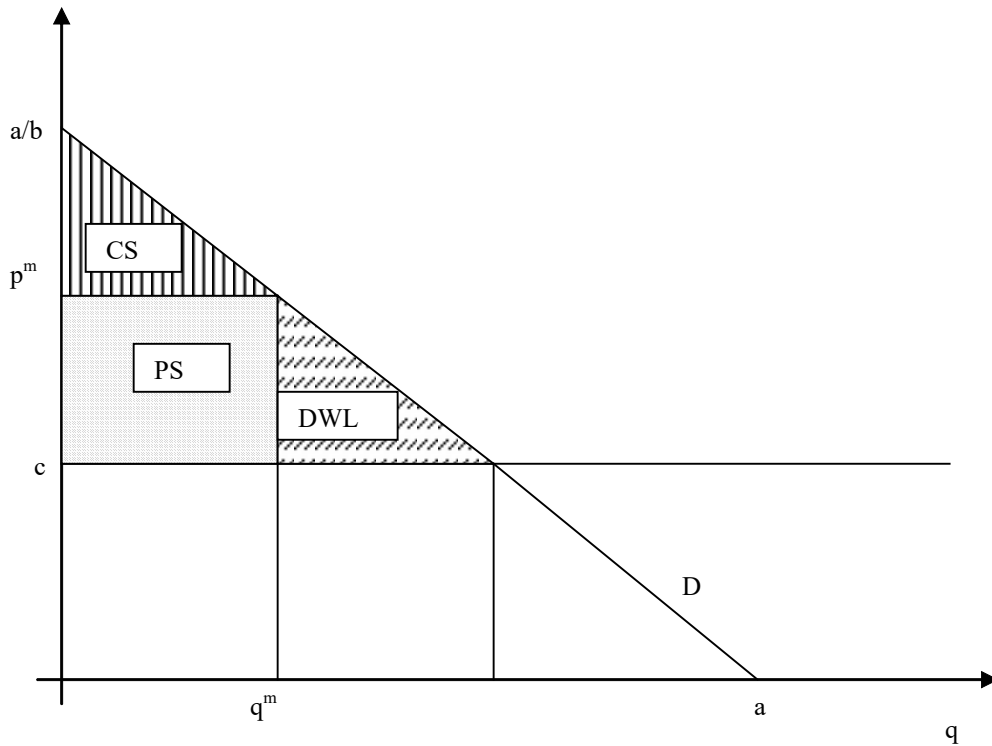


**Figure 1 : Uniform monopoly pricing**

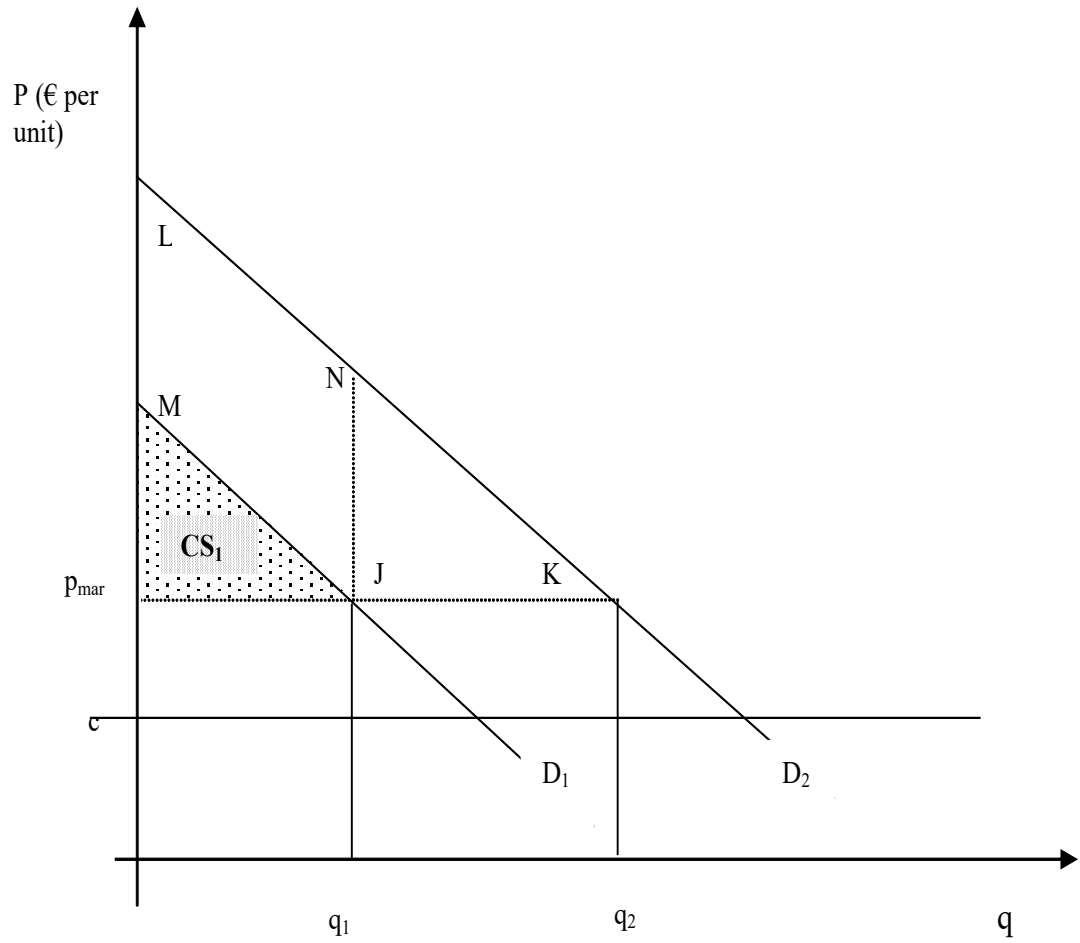
Marginal revenue equals marginal cost for  $q^m = \frac{(a-bc)}{2}$ , and the corresponding price is

$$p^m = \frac{(a+bc)}{2b}.$$



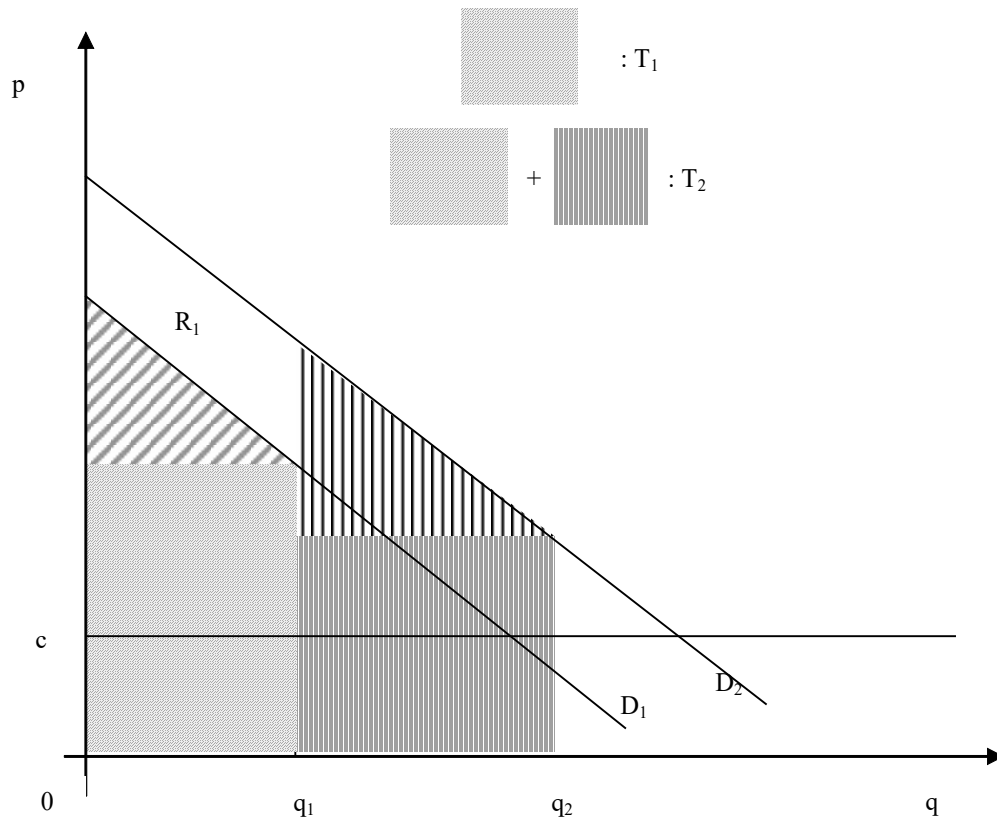
**Figure 2 : Surpluses and Deadweight Loss**

CS : consumer surplus (triangular area with vertical stripes between the inverse demand curve,  $D$ , and price  $p^m$ ); PS : producer surplus (rectangular area in dots above marginal cost); DWL : deadweight loss (triangular area with horizontal ticking)



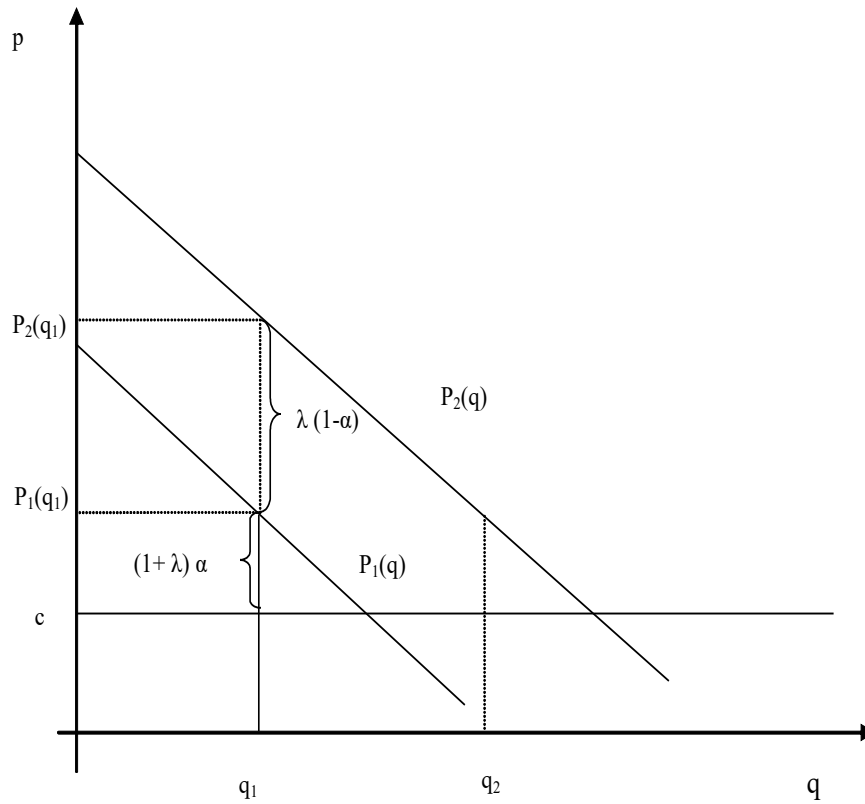
**Figure 3 : Sub-optimality of two-part pricing**

$CS_1$  : Consumer surplus for Type 1 (triangular area in dots between the inverse demand curve  $D_1$  and price  $P$ ).



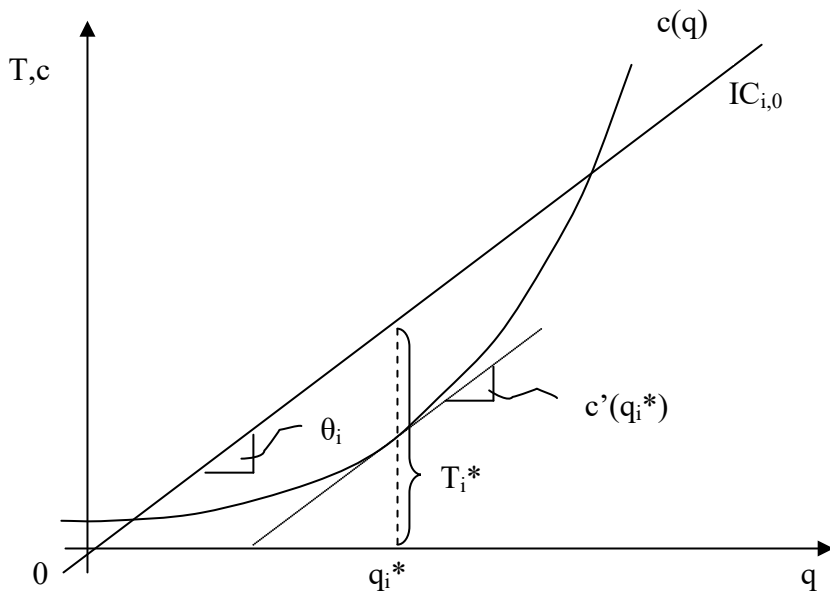
**Figure 4 : Tariffs and informational rents**

The tariff  $T_1$ , paid by Type 1 buyers, is their gross surplus, the area under demand curve  $D_1$ . The informational rent is the area between the two demand curves, from quantity 0 to  $q_1$ . The tariff  $T_2$ , paid by Type 2 buyers, is their gross surplus minus the informational rent.



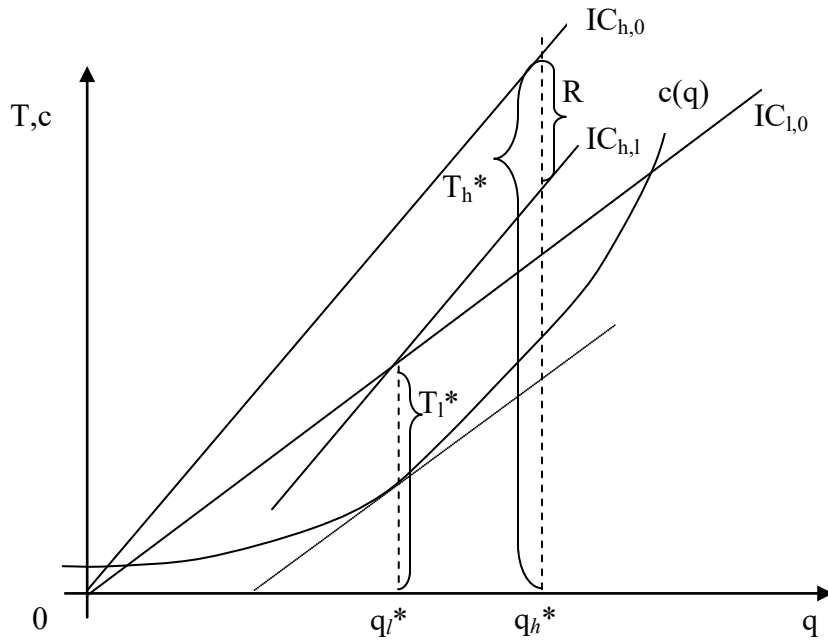
**Figure 5 : Optimal nonlinear pricing**

The vertical distance between  $c$  and  $P_1(q)$  is proportional to  $(1+\lambda)a$ , and the vertical distance between  $P_1(q_1)$  and  $P_2(q_2)$  is proportional to  $\lambda(1-a)$ .



**Figure 6 : Price and quality with perfect discrimination**

$IC_{i,0}$  is an indifference curve with slope  $\theta_i$  going through the origin, and corresponds to zero surplus;  $c(q)$  is marginal cost where  $q$  stands for quality.



**Figure 7 : Prices and qualities under individual arbitrage**

The informational rent  $R$  corresponds to the vertical distance between the indifference curve  $IC_{2,0}$  and the indifference curve  $IC_{2,1}$ .