Pricing

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American Airlines changes fares 500,000 times per day. Gasoline varies as much as 15¢ per gallon over a two mile drive. How do companies determine prices? The main theory involves price discrimination, or value-based pricing, which involves charging each consumer what the market will bear. Sophisticated sellers create goods designed for specific groups of customers, selling intentionally damaged products to price-sensitive groups. The theory is illustrated with striking examples from IBM, airlines and more.

Grocery stores advertise sale prices on milk, paper towels, cola and other items, even though the demand and cost of production didn't change. Why? Why are turkeys cheapest just before Thanksgiving, a time when demand is highest? These paradoxes have a common resolution.

R. Preston McAfee received his undergraduate degree in economics from the University of Florida, and master of science in mathematics, and a Ph.D in economics from Purdue University. McAfee is the J. Stanley Johnson Professor of Business, Economics & Management, and also executive officer for the social sciences, at Caltech. He formerly was a chaired professor at the University of Texas.

The author of many academic papers on auctions, McAfee was one of the designers of the Federal Communication Commission's first auction of radio spectrum rights for cellular phones, and over \$20 billion has been raised with this auction. He has run auctions in Mexico and advised other governments on auction use.

McAfee served as an economic expert in a variety of antitrust cases, including advising the Exxon-Mobil, BP-Arco, Lockheed Martin-Northrop Grumman, and Peoplesoft-Oracle. He also testified in the U.S. versus Rambus, and has testified before several United States Senate committees on antitrust enforcement and gasoline pricing.