

Price cycles in markets with customer recognition

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ABSTRACT

With the development of the information technologies firms have increasingly the ability to recognize their previous customers. Given that having bought earlier from a firm reveals something about the customers, the firms can try to use this piece of information by better fitting their market practices with respect to their previous customers. This paper considers such a situation focusing on the implications of the consumers anticipating this firm behavior, and the firm behaving also strategically about the extent of the market that is being covered. The paper considers an infinitely lived monopolist selling to a market where demand is composed of overlapping generations of consumers. The monopolist can price differently to its previous customers than to its new customers. The new customers can either have chosen not to buy the product in the previous period or be new in the market. The central result of the paper is that the equilibrium involves cycles in the price being offered to the new customers. The monopolist is worse off than if it could not recognize its previous customers. The impact of durable goods, long-term contracts, and age recognition is also considered.

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