Paying for Express Checkout: 
Competition and Price Discrimination 
in Multi-Server Queuing Systems†

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Abstract: We model competition between two firms selling identical goods to customers who arrive in the market stochastically. Shoppers choose where to purchase based upon both price and the time cost associated with waiting for service. One seller provides two separate queues, each with its own server, while the other seller has a single queue and server. We explore the market impact of the multi-server seller engaging in waiting cost based price discrimination by charging a premium for express checkout. Specifically, we analyze this situation computationally and through the use of controlled laboratory experiments. Somewhat surprisingly, we find that this form of price discrimination is harmful to sellers and beneficial to consumers. When the two-queue seller offers express checkout for impatient customers, the single queue seller focuses on the patient shoppers thereby driving down prices and profits while increasing consumer surplus.

JEL Classifications: C9, D4, D6, L2, L8

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1. Introduction

In many markets there are more customers desiring attention than can be accommodated at one time, which means that some customers have to wait, be it in line to checkout at the grocery, on hold with technical support, or for a table at a restaurant. If individuals value their time differently, then there is a socially optimal allocation of scarce queue slots, and traditional first come first serve queuing will be inefficient. Imagine a crowded bakery on a Friday morning. For a customer ordering pastries to take to an important business meeting, waiting in line can be very costly. But for a customer on vacation and planning to enjoy a pastry while reading the newspaper and lounging at a table in the bakery, waiting has a relatively low cost. These arguments are not unique to service industries; users of communication and transportation networks also have heterogeneous waiting costs as certain packets of information and cargo are more time-sensitive than others, and thus all queuing systems that ignore preference heterogeneity are inefficient.

In principle, one could introduce market forces to offset these inefficiencies by allowing high time-cost customers to pay for priority service, either by paying a premium to the seller or via transfers to more patient customers further ahead in the line. However, contracting costs can make such systems difficult to implement, and other less efficient mechanisms are often used instead (such as first come first serve at a bakery where people pull a number). Nevertheless, in some situations people are able to pay for priority – as in the movies when a patron slips the maître d’ some cash in exchange for a quick seating at a premium table. In the naturally occurring world, Six Flags and other theme parks offer multiple levels of passes at premium prices which allow holders to avoid waiting in line, and for nearly double the usual entry price, tourists can skip the queue when going to the top of the Empire State Building in New York City. A more celebrated example is variable priced toll roads, which have become a hot concept for reducing road congestion.

In this paper, we employ a computational model and laboratory experiments to explore a similar concept in a retail environment where multi-queue sellers use premium pricing for express checkout. By charging different prices at each queue, retailers can encourage customers to self-sort according to

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1 Another alternative is the mechanism used in emergency rooms where patients are triaged and those with life threatening conditions are taken before those with minor injuries. While few begrudge this practice in the ER, it is doubtful that people would be as accepting of allowing a baker to decide who was served first based upon their opinion of what the person had planned for the rest of the day. At the same time one can imagine the outrage if a poor person died while waiting at the ER for a wealthy person with a minor scrape to be treated because the latter was willing and able to pay more.

2 Several U.S. metropolitan areas have converted High Occupancy Vehicle (HOV) lanes over to HOT (High Occupancy or Toll) lanes. Toll roads use prices to limit access to the road. On a conventional toll road, there is a single price regardless of current demand, but with a variable priced toll road the price is adjusted to reflect congestion. For example, a 10-mile stretch of the Riverside Freeway (CA 91) in Orange County, California has variable priced toll lanes, with prices that ranging from $1.20 off peak to $10.00 at peak, operating alongside multiple free lanes.
waiting costs and perhaps thereby acquire a greater portion of the available surplus. As opposed to the toll road example, where there is no competition among highways due to the natural monopoly structure of roads, or the entertainment examples, where products are highly differentiated, retail markets are generally competitive markets offering homogenous goods.\(^3\) Thus, when making pricing decisions, retailers must take into account not just the response of their customers, but of their rivals as well. The most closely related theoretical work to ours is Luski (1976), Lehvari and Luski (1978), and Armony and Haviv (2003) who model duopoly markets with queuing and stochastic arrival of heterogeneous customers where two identical sellers each control a single server and queue. They show that under certain conditions pure-strategy equilibria exist in which identical sellers charge different prices and segment the market according to waiting cost. So far, however, we know of no research looking at price discrimination when firms control multiple queues in a competitive framework. At first glance, one may think that the provision of high price and low price queues is just another example of vertical product differentiation, but there is an important difference. In a classic problem of vertical product differentiation, quality is either exogenous or fully under the control of the seller. With queuing, product quality, i.e. waiting time, is determined endogenously by the interaction between prices and consumer behavior. Another departure of our work from these previous papers is that while they have focused on steady state outcomes, we focus on profitability over the natural cycle from store opening when all queues are empty through store closing when no new shoppers arrive but those already in line continue to be served. Two reasons motivate such a departure. First, the nature and the properties of the steady state equilibrium are highly sensitive to parameter choices. Second, the natural cycle approach is better suited in making the bridge between the naturally occurring economy and experiment results.

Compared to current retail practices, price based express checkout is a step beyond what many multi-line retailers offer in the form of “express lines” for those purchasing, say, 12 items or less. The logic of limited quantity queues is that shoppers who are in a hurry and only want a few items may be unwilling to go to a large box store for fear of being stuck in long lines behind shoppers with full carts. These impatient customers may instead choose to go to smaller convenience stores and pay higher prices for a quicker shopping experience. Intuitively, price based express checkout could potentially eliminate a small retailer’s ability to poach time sensitive customers.

Ultimately, though, our experimental data suggest that allowing a multi-line seller to offer price based express checkout leads to lower overall prices in the environment we study. This outcome is beneficial to consumers and results in lower seller profits, which may help explain why the practice is not common. The next section of the paper briefly reviews related literature. Section 3 lays out the model

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\(^3\) While there are alternative entertainment options for amusement parks, these options including possible other theme parks are highly differentiated. A similar argument applies to the Empire State Building in New York City, which, while not holding a monopoly on views of the city, offers a highly differentiated product.
that we analyze computationally. Section 4 describes the design of our experiments used to compare price based express checkout and uniform pricing along with two additional treatments – one that offers a more direct test of the one-shot model’s predictions and one that serves as a check on subject responsiveness to model parameters. The behavioral results are presented in section 5. A final section offers concluding remarks.

2. Related Literature

Naor (1969) provides the first discussion of using prices to regulate the size of queues, and Alperstein (1988) describes optimal pricing strategies for a single seller operating multiple queues and serving otherwise-homogeneous customers that have heterogeneous waiting costs. Similarly, Van Mieghem (2000) examines single-server queue price discrimination among heterogeneous customers with asymmetric information, and Daniel (1995) applies the logic of congestion pricing to the allocation of valuable airport landing slots. Experimental study of these issues have been relatively rare, but see Klausz et al. (1998) and Cook and Plott (2005) for experimental implementations of a market for queue priority with a single server. In general, previous laboratory work on queuing has focused on the behavior of customers rather than the sellers operating the queues, e.g. Rapoport et al. (2004), Seale et al. (2005), Pazgal and Radas (2008), Rapoport et al. (2010), and Sankaranarayanan (2011). See also Chen et al. (2007) for an experiment on network congestion.

In the Levhari and Luski (1978) model, which is most similar to our setup, when asymmetric-price, pure-strategy equilibria exist, there also exists an equilibrium in which sellers charge the same price. To our knowledge, no one has tested their model in an experimental setting; however, this may be partly due to the fact that the differences in prices charged by the two sellers are typically quite small and would be difficult to distinguish from noise. Our environment differs from theirs in that our sellers are not identical. For an extension to a continuum of sellers, see also Reitman (1991) and Dube and Jain (2009), whose discussions of queue price competition differs from ours in that buyers’ reservation values are assumed to be sufficiently large that no buyers ever choose not to enter a queue in equilibrium. Similarly, in a model with identical customers and general queue structures, but with heterogeneous service rates rather than waiting costs, Acemoglu and Ozdaglar (2007) prove the existence of mixed strategy oligopoly equilibria.

Practically speaking, the success of any new pricing policy depends on how it is perceived by customers (Savage and Torgler 2010). In a well-known example, Coca-Cola developed a vending machine that would set prices based upon outside air temperature, but consumer response was sufficiently negative that the device was never implemented. On the other hand, overnight shipping and one-hour laundry service are competitive industries that charge a premium for fast service; however, it is likely that
customers view the price premium for these services as being justified by the additional effort exerted by the seller. How customers might perceive a store offering a premium-priced express checkout line is an interesting question, but beyond the scope of this paper. We do note that there are two ways to present differential pricing to consumers: offering express checkout at a premium and offering a discount for those who are more flexible. While it is not always explicitly presented as such, one similar line of research emphasizes the implicit time-cost price discrimination resulting from the practice of offering cents off coupons to customers; only customers with low opportunity costs of waiting are likely to take the time to cut coupons (Narasimhan 1984). See Gerstner et al. (1996) and Chen et al. (2005) for a similar argument about rebates; see Moorthy (1984) for a more general discussion of using product differentiation to encourage customer self-sorting; and see Stole (2007) for a summary of research on price discrimination in competitive environments. While offering a discount to the patient and charging a premium to the impatient are not distinct from a traditional theoretical perspective, it is easy to imagine that consumers would view the latter as elitist but have a favorable view of the former. A similar psychological effect likely explains why universities often promote their use of merit-based scholarships, but never advertise that they charge weak students a higher price even though the two statements convey the same meaning. One last important difference between our setting and the rest of the literature on self-sorting and product differentiation is the presence of externalities across consumers. By joining a given line, a consumer imposes a negative externality on other members of the line. A monopoly is able to internalize some of the externality so to generate higher profits. The presence of competition constrains the ability of firms to internalize this externality.

More generally, our paper and this literature can be viewed as part of the evolving focus on customer service in marketing (see Rust and Chung 2006) and on multi-attribute competition, in which firms compete for customers on price, service time, quality and so on (see e.g. Li and Lee 1994; Chen and Wan 2003; Allon and Federgruen 2007).

Finally, our laboratory implementation builds on a rich literature on duopoly (and oligopoly) competition in experimental market settings. Davis and Holt (1993) summarize the findings from the literature, but to our knowledge no one has studied either competition or price discrimination in laboratory queuing systems.

3. Model and Computational Analysis

Traditionally, multi-queue sellers have set prices that are independent of the checkout line that a shopper uses. However, a seller who operates multiple queues and multiple servers may prefer to charge different prices at each queue to exploit differences in consumers’ waiting costs. Shoppers with higher waiting costs would be willing to pay a premium in order to avoid the costs of waiting in line, and thus,
the seller can induce consumers to reveal their type by setting different prices and allowing shoppers to self-sort, a form of second degree price discrimination. Therefore, we compare the effects of two policies on prices, profits and consumer welfare. In one case, a multi-queue, multi-server seller sets a single price for all of its queue-server pairs, and in the second case, the seller may engage in time-cost based price discrimination, charging a separate price at each queue; in practice this is equivalent to a situation where one seller operates two retail locations and the other seller operates a single location. The policy question is then whether or not the seller operating two stores sets the same price at both stores.

We construct a model of market competition between two sellers offering identical goods to a population of shoppers, who arrive in the market sequentially. All shoppers want at most one unit of the good and value it equally. Shoppers only differ in their cost of waiting to be served. A seller can serve only one customer at a time for each queue it operates, and the time it takes to service a customer is fixed. Shoppers enter queues optimally to maximize their surplus. That is, a shopper compares the value of the item to the total cost of making a purchase, which includes the price and the time cost of waiting to be served. If no queue offers a positive surplus to the shopper, then she balks and does not make a purchase. If some queue offers a weakly positive surplus to the shopper, then she will join the queue offering her the greatest surplus, with any tie broken randomly. Under this setup, customers never renege because waiting times are deterministic, and thus if it was optimal to join the line, it is never optimal to leave it.

Formally, we consider a duopoly situation in which one seller controls two queues and the other controls a single line. Both sellers privately and independently set their market prices, which are fixed for N periods. Let \( p_1 \) be the price charged by the seller with a single checkout line and let \( p_2^A \) and \( p_2^B \) be the prices charged by the seller operating two lines. Traditional uniform pricing by the two-line seller is captured by the constraint that \( p_2^A = p_2^B \), while price based express checkout allows for \( p_2^A \neq p_2^B \). Without loss of generality, we assume that \( p_2^A < p_2^B \).

The number of arriving shoppers each period is governed by a truncated Poisson (I) process. We normalize the service rate so that it takes one period to serve one customer. Each shopper values the good

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4 Several features of our markets are simplistic. It is unlikely that all consumers have identical values for a product or that service times are identical. However, these realistic complications are not critical to the aspect of the market that is under investigation. Moreover, our model and experimental/computational environment provide a foundation for testing future hypotheses about the impact of these variables.

5 Recent technological advances, such as smart phones, make acquiring such information more feasible than it may at first appear, e.g. one can currently search online for real-time information on areas of traffic congestion in most major cities. With the explosion of mobile computing and data sharing the ability to access such information will be enhanced.

6 We use line and queue interchangeably. While queue is more common in the literature, we use the line terminology with the subjects in our experiments, as this term is more common colloquially.

7 The actual distribution was an approximation to a Poisson distribution with an upper bound on the number that could be drawn. This was done to facilitate participant comprehension in the laboratory experiments discussed later.
at (has a maximum willingness to pay of) \( v \). A fraction \( s \) of shoppers are impatient and incur a high cost \( c_H \) for each period spent waiting to be served. Patient shoppers incur a low cost \( c_L \in [0, c_H) \) while waiting. Given the normalization that one shopper is served at each queue in each period, a shopper’s total wait cost is proportional to the number of people in line ahead of her when she joins the line. Three further clarifications are necessary. First, when the first period begins, there are no shoppers already in line. This mimics a store opening its doors in the morning. Second, while multiple customers can arrive in one time interval, the order in which they consider joining a line is determined randomly. This is consistent with the interpretation of the Poisson distribution as governing the number of occurrences of a random process that occur within a fixed period of time. Third, although there are only \( N \) periods, any shopper in line at the end of period \( N \) will eventually be served. This final point is similar to a store locking its doors at closing time but allowing those already inside the store to complete their purchases. A similar rule has been employed in other experimental studies of duopoly competition with sequential arrival of buyers (e.g. Brown-Kruse et al. 1994)

Obviously, the numeric results will depend upon the specific parameter values that are considered. With no particular industry or previous research upon which to base the choice of values, any selection is admittedly somewhat arbitrary. For our simulations and subsequent laboratory experiments, we implement the following parameters:

1) \( N = 60 \)
2) \( \lambda = 2 \)
3) \( v = 10 \)
4) \( s = 0.5 \)
5) \( c_L = 0 \)
6) \( c_H = 2 \)

The values of \( c_L \) and \( s \) were set for simplicity in both the simulations and the market experiments. \( v \) and \( c_H \) only matter in relation to each other and \( c_L \). We set \( N \) with an eye towards the experiments. In particular, each period lasts one second and thus \( N = 60 \) corresponds to a minute in real time. \( \lambda = 2 \) is chosen so that a queue will build if there is a unique low price seller but there is excess service capacity in the market.

To explore optimal behavior, we perform a grid search over \( \left(p_1, p_2^A, p_2^B\right) \in \mathbb{Z}[1,10] \times \mathbb{Z}[1,10] \times \mathbb{Z}[p_2^A, 10] \) to compute empirical best response functions for each seller. The grid reflects the fact that sellers were required to set integer prices and were not allowed to set prices at 0; nor were they allowed to set prices above the maximum willingness to pay of the buyers as prices equal to 0 or greater than \( v \) yield

in the paper. In particular, our truncated distribution can be described visually as shown in the appendix. The computational results are essentially unchanged if one uses a true Poisson distribution.
zero profit. For each possible price triple, we simulate 2000 realizations of 60 periods and calculate the average profit to each seller.

Figure 1 shows the best response curves for each seller with uniform pricing. Notice that both sellers have a one-dimensional best response given that each sets a single price. In a strict sense, as only integer prices are allowed (both in the simulation and the accompanying experiment), the best responses are the markers that appear in Figure 1. The lines are added to help visualize the relationships. Solid lines denote a continuation of a strategy (to undercut or poach) whereas dashed lines indicate a change in strategy. In the uniform pricing case, there is no pure strategy equilibrium (i.e. the best response curves do not cross). Both sellers prefer to undercut their rival by one unless their rival is charging a sufficiently low price in which case it is optimal to set a price of 10 and poach impatient shoppers. As shown in Figure 1, there is an asymmetry in how low a seller is willing to price, with the single-line seller willing to price as low as 5 and the two-line seller only willing to go as low as 7. To determine the Nash equilibrium of this game, we first eliminate all of the dominated pure strategies (ex: the single line seller setting a price less than 5). Given this reduced game it is then straightforward to calculate the mixed strategy Nash equilibrium. The result is that the single line seller should set a price of 5 with approximately probability 0.06, a price of 7 with probability 0.90, and a price of 9 with probability 0.04. The two-line seller should charge a price of 6 on both lines with approximately probability 0.49, a price of 8 on both lines with probability 0.19, and a price of 10 with probability 0.32. In equilibrium, the two-line seller would expect to earn approximately $451 for each 60-period market day.

When the two-line seller can price discriminate, that seller has a best response surface, which would result in a three-dimensional figure. In general, the single-line seller prefers to undercut its rival unless the minimum price offered by the rival is very low, as with uniform pricing. The two-line seller’s best response is generally to undercut the single-line seller’s price with one line and charge a premium at the other line. As in the uniform pricing case, there is no pure strategy equilibrium. While the size and nature of the reduced game is more complicated in this case, one can again calculate the mixed strategy Nash equilibrium treating each price pair the two-line seller could charge as a strategy. To solve for the equilibrium we used Gambit (McKelvey, McLennan, and Turocy 2007). In equilibrium, the single-line firm will set its price at 4, 6, and 8 with probabilities of approximately 0.62, 0.30, and 0.08, respectively. The two line seller will set price pairs of (5,8), (7,8), and (10,10) with probabilities of approximately 0.60, 0.23, and 0.17 respectively. In equilibrium, the two-line seller would expect to earn approximately $447, or 1% less than when price discrimination is not possible, and this is driven by the lower average prices charged in the discriminatory case. Thus, it appears that rather than being profitable, the ability to price discriminate by offering premium express checkout actually harms the two-line seller, albeit minimally.
To check the robustness of our analysis, we replicate the simulations with $c_h \in \{1,3\}$, $\sigma \in \{0.4,0.6\}$, and $\lambda \in \{1, 3\}$, varying each parameter in isolation. The basic results are similar, and we find no pure strategy equilibria under any of these parameterizations. However, it is worth noting that if the proportion of shoppers who are impatient ($s$) is sufficiently low, the situation reduces to Bertrand competition.

Finally, for completeness we point out that, with our baseline parameters, a three-line monopolist forced to set a uniform price would optimally charge 10 at each line, and a three-line firm that was allowed to set different prices at each line would have one line priced at 9 and two priced at 10. This simple change would increase monopoly profit by over 18% because it reduces balking by impatient shoppers. This latter outcome is the profit-maximizing collusive strategy, which can be achieved in two ways under **Discriminatory**, $p_1, (p_2^A, p_2^B) = 10, (9,10)$ and 9, (10,10), and in only one way under **Uniform**, $p_1, (p_2^A, p_2^B) = 9, (10,10)$.

### 4. Experimental Design and Procedures

To further explore the impact of sellers charging for express checkout, we turn to a two-treatment, between subjects controlled laboratory experiment. In the experiment, human subjects participated as sellers while buyers were operationalized as truthfully revealing robots. This approach is justified because we study a setting in which buyers do not have market power and do not make repeated purchasing decisions (Brown-Kruse 2008). Subjects were randomly assigned to be either a one-line seller or a two-line seller and retained that role throughout the experiment. The two main treatments are distinguished by whether the two-line seller is forced to charge a single price for both of his queues (**Uniform** treatment) or not (**Discriminatory** treatment). Subjects were randomly and anonymously matched with a seller in the other role and interacted with that person for the entire session which consisted of 40 markets, each lasting $N = 60$ periods. Twelve subjects were in the laboratory at one time so that no one could identify who their rival was. The treatment was fixed for the entire session. The fixed matching procedure and $N$ were common information, but the number of markets was not. The subjects also had complete information regarding the parameters presented in the previous section. As argued by Hampton and Sherstyuk (2012), maintaining fixed matching more closely replicates naturally occurring markets as few sellers ever interact with their rival only once. Given our interest in the applied problem, we chose to implement a fixed matching protocol for our main experiment. As described later, we also examine a random rematching protocol, which is more appropriate for a strict test of the one-shot model.

Subject sellers set their prices at the beginning of a market. Each period was one second and therefore a market lasted just over one minute since any customers already in line at the end of the 60th period continued to be served at the rate of one per second. Once prices were set, both sellers could
observe current prices and were shown buyers arriving in the market. Figure 2 shows the screen interface. A buyer in line was represented by a stick figure. Those buyers standing beside the image of a cash register are in the queue, and thus sellers could determine how long each line was at any point. How many shoppers arrived each period, how many joined each queue, and how many shoppers balked was displayed on the lower right of the subject screen. Also available to subject sellers was a historical record that showed previous prices and earnings by market. Sellers intentionally were not informed of the wait cost of a particular shopper because this information is not available to sellers in naturally occurring retail markets. To reduce variation across sessions, a single set of approximately 4800 realizations (40 markets \( \times \) 60 periods per market \( \times \) an average of \( l = 2 \) buyers per period) of buyers was used in every duopoly. This practice helps ensure that differences between sessions are generated by the treatments and endogenous differences in pricing behavior.

We conducted two additional experiments to provide further insight into these markets. The first of these, called the Random treatment, replicates the Discriminatory experiment except that sellers are randomly and anonymously rematched after each 60 period market, though subjects retain their roles as either one-line or two-line sellers throughout. As mentioned above, this procedure offers a cleaner test of the mixed strategy Nash equilibrium, which is developed as a one shot game ignoring any strategic implications of current behavior on future outcomes. In particular, repetition allows for reputation building and the threat of future punishment of non-cooperative behavior. The folk theorem implies that any set of strategies that generates profits for both players in excess of the one shot Nash equilibrium can also be supported as a Nash equilibrium in the repeated game when players have sufficiently low discount rates. In our setting this means that Discriminatory should lead to prices weakly between the one-shot equilibrium level and the monopoly level. Since the ability to punish non-cooperative behavior in the future is eliminated in Random, behavior is hypothesized to coincide with the one shot Nash equilibrium. Thus, prices in Discriminatory are hypothesized to be weakly greater than those in Random.

The second additional experiment, called the Patient treatment, also replicates the Discriminatory treatment except that all customers are patient (i.e. \( s = 0 \)) and so will always simply join the lowest priced line. Casual introspection yields that Bertrand competition should drive all prices down to their minimum (1) in the one shot game and that the monopoly outcome is to charge a price of 10 at every line. Thus, with the repeated play (fixed pairings) employed in the Patient treatment, the folk theorem implies that any price could be charged by at all three lines in equilibrium. Still, it seems reasonable to suppose that the elimination of impatient customers will lead to lower prices. Thus, this treatment is designed to verify that our sellers are responsive to shopper characteristics.

The experiments were conducted in the Behavioral Business Research Laboratory at the University of Arkansas. Participants were recruited randomly from the lab’s database of undergraduate
Six distinct seller pairs competed in each of the Uniform, Discriminatory, and Patient treatments. An additional twelve subjects participated in the Random treatment. On average, sessions lasted one hour. Each subject received a payment of $5 for arriving to the session on time. Subjects were also paid based upon their profits in the experiment. All prices, costs, and values in the market were denoted in Lab Dollars, which were converted into USD at the end of the experiment at a rate of 150 Lab Dollars = 1 USD for two-line sellers and 100 Lab Dollars = 1 USD for one-line sellers. Average salient earnings in the experiment were $9.68 with a high of $20.25 and a low of $4.00, not including the arrival payment.

5. Behavioral Results

The results are presented in four subsections. The first two focus on the main treatment comparison – Discriminatory vs Uniform. In the first subsection we focus on the aggregate effects of the treatment variable while the second subsection examines role-specific behavior. The third subsection reports the results of the Random treatment and compares those to both the theoretical prediction and the observed behavior in Discriminatory. The fourth subsection reports the results of the Patient treatment, confirming that subjects respond to the time-cost manipulation.

5.1 Aggregate Treatment Effects between Discriminatory and Uniform

We find that when multi-line sellers are prohibited from engaging in price based express checkout, prices and profits are higher than when sellers can engage in this form of price discrimination. This result is surprising given that the multi-line seller could opt to not engage in price discrimination by simply setting a single price at both lines. Further, consumer welfare is greater when the two-queue sellers offer price based express checkout. The buyer result is not tautologically equivalent to the seller result, because higher prices can reduce queue length and thus wait costs. Below, we provide details on these two main findings.

FINDING 1: Price based express checkout lowers market prices and reduces seller profits.

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8 A common, but naïve, criticism of laboratory experiments that involve undergraduates is that the subjects lack the sophistication necessary to understand the problem. First, theoretical models such as the one developed here are silent as to the identity of the decision-maker and only specify that it is attempting to maximize its profit. Second, this critique wrongly assumes that it is the absolute level of behavior that is relevant and not the comparative static effect between treatments. It is true that a laboratory market will not generate the same prices as another market (naturally occurring or inside the lab) with different parameters. It is also true that knowing the price in a naturally occurring market, such as the one for consumer package goods, will not inform you of the price for other items such as clothes. Unless the sophistication and experience of the decision maker is expected to have differential effect across treatments, then the comparative static effects are robust to such changes. Finally, when researchers have explicitly compared sophisticated subjects and undergraduates, the behavioral differences are often quite small (see for example, King, et al. (1993) studying asset market trading, Dyer, et al. (1989) in common value auctions outside the familiar domain of the experts, and Haigh and List (2005) for myopic loss aversion among traders).
Evidence: Figure 3 displays time series of mean prices charged by queue, averaged across all duopolies in each treatment. Clearly evident from the two top panels of the figure is the fact that mean prices charged, computed over all three lines, are higher in the Uniform treatment than in the Discriminatory treatment (6.43 vs. 5.33, respectively). Moreover, mean profits are 363 Lab Dollars/market in the Uniform treatment and 282 Lab Dollars/market in the Discriminatory treatment. These comparisons are supported by panel regressions reported in Table 1.

Columns (1) and (2) report regression analysis where the dependent variables are the mean price charged by sellers and the total profit, respectively, in each market of each session. In both specifications, as well as the other three discussed below, the independent variables are a constant term, a market (time) trend, and a dummy variable that takes a value of 1 in the Discriminatory treatment and 0 otherwise. We include random effects for each session to control for repeated measures and report heteroskedasticity robust standard errors. In columns (1) and (2), the estimated coefficients of the Discriminatory treatment dummy variable are both negative and significant (p-values < 0.05) indicating that the ability to implement a premium express checkout policy is harmful to sellers. The lack of significance for the Market variable indicates that there is no trend in behavior (learning) over the course of the experiment.

We now turn to the buyers’ side of the market where we find that price based express checkout is beneficial to consumers.

FINDING 2: Consumer welfare is higher with price based express checkout.

Evidence: As with Finding 1, we report summary statistics and estimate treatment effects using panel regressions that account for the repeated measures nature of our data. In Finding 1, we computed the mean price charged by sellers, but to understand the effects on consumer welfare, one should compute the mean price paid by buyers, which will differ because buyers sort according to their waiting costs and will buy from the lowest priced seller ceteris paribus, and the consumer surplus. Across all markets, the mean price paid is higher in the Uniform treatment than the Discriminatory treatment (6.34 vs. 4.90). Similarly, consumer surplus is higher in the Discriminatory treatment than in the Uniform treatment (739 vs. 594 Lab Dollars/market).

Columns (3) and (4) of Table 1 report panel regression analysis in support of the evidence presented above, and column (5) reports additional evidence that price based express checkout is beneficial to consumers by reducing balking. In columns (3) – (5) the dependent variables are the mean price paid, total buyer surplus, and the number of buyers that balk in each market of each session, respectively. Again, we include session-specific random effects, and we estimate heteroskedasticity robust standard errors. A negative and significant estimated coefficient on the treatment dummy in
equation (3) supports the claim that consumers pay lower prices in the Discriminatory treatment, and a positive and significant coefficient in equation (4) indicates that buyers earn more surplus (both p-values < 0.05). Moreover, a weakly significant estimated coefficient of the treatment dummy in column (5) indicates that that fewer customers balk when discrimination is possible (p-value < 0.1). Taken together, the evidence strongly supports the claim that buyers are better off under a regime of price based express checkout. Again, the lack of significance for the Market variable indicates that there is no trend in behavior (learning) over the course of the experiment.

While price discrimination is typically understood to result in a net transfer of surplus from buyers to sellers, we observe the opposite effect due to the competitive pressure applied by the one-line seller on the two-line seller’s lower priced queue.

5.2 Firm-Type Specific Treatment Effects between Discriminatory and Uniform

Why does the ability to engage in price discrimination harm sellers? The answer can be found in the top two panels of Figure 3. Observe that in the Uniform treatment, the two-line seller sets very high prices and those prices are higher than the price set by the one-line seller. In such a situation, a price cut by the two-line seller has a large negative impact on its profitability because it is no longer able to charge impatient people a high price. By contrast, if the two-line seller can engage in price discrimination, then it can lower one of its prices in an attempt to take market share from the one-line seller while maintaining a high price at its second queue to continue exploiting impatient shoppers. This is exactly the pattern that is observed in the top right hand panel of Figure 3, where the single-queue seller is competing heavily with the lower-priced of the two-queue seller’s lines. As a result of the competition, the premium price at the two-line seller is reduced too.

Not being able to discriminate increases the cost of competing for patient consumers by aggressively lowering prices. A uniform price acts as a disciplining device. Behaviorally, if the two-line seller could credibly commit not to engage in price discrimination then it would prefer to do so, thereby raising profits; however, for whatever price the single-line seller charges, the two-line seller would prefer to engage in price discrimination. This phenomenon is similar to the temptation to defect in a prisoner’s dilemma game despite the fact that cooperation is jointly preferred. The tendency of sellers to engage in tacit collusion is a well-known finding in repeated duopoly games (See e.g. Davis and Holt 1993; Dufwenberg and Gneezy 2002; Huck, et al. 2004); however, in our experiment if firms collude, whichever firm is able to charge a price of 9 will serve the bulk of the customers and thus earn the lion’s share of the profits and the two lines setting a price of 10 will attract only impatient customers when the low price queue is long. So the incentives to undercut are strong in this environment. This deterrent to

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9 Recall that the monopoly price, that is the price that would be charged if one seller operated all three queues, is 10, the same as the buyer’s value.
collusion is amplified in the Discriminatory treatment where there is a coordination problem to determine which firm will charge the lower price. Higher prices in the Uniform treatment provide evidence that cooperation may be simpler the fewer variables that must be coordinated. That is, it may be easier for the two sellers to collude when there are only two prices instead of three.

To verify this type specific pattern statistically, we estimate the difference in behavior between the Uniform and Discriminatory treatments. Separate linear panel regressions are conducted for each seller type. For one-line sellers, we estimate a single model where the dependent variable is the price charged by seller \( i \) in market \( t \). For the two-line firms, we estimate three different models: in the first, the dependent variable is the mean price charged over both lines; in the second, the dependent variable is the lower of the two prices charged; and in the third, the dependent variable is the higher of the two prices. In the Uniform treatment, the higher and lower price are the same, so these will allow us to estimate whether the two-line Uniform sellers price closer to the high or low price charged by Discriminatory sellers. In all of the models the independent variables are a market (time) trend, a Discriminatory treatment dummy variable, and a constant term. We include random effects for each seller to control for repeated measurements and we estimate heteroskedasticity robust standard errors.

Table 2 reports the regression output. In the regression comparing one-line sellers reported in column (1), a negative and significant estimated coefficient on the Discriminatory treatment dummy indicates that one-line firms charge significantly higher prices in the Uniform treatment. Comparing two-line sellers, column (2) reports that mean prices are lower in the Discriminatory treatment, and columns (3) and (4) indicate that this effect is primarily driven by the fact that prices are competed down significantly at the lower priced of the two lines.

### 5.3 Testing the Theoretical Predictions with the Random Treatment

While it is an equilibrium of the repeated game in the Discriminatory treatment for the sellers to play the one-shot mixed strategy Nash equilibrium in each stage game, the Folk theorem implies there are numerous other mutually beneficial pricing strategies that could be sustained in equilibrium. Thus, the Random treatment, which eliminates the repeated play aspect of the game, is a cleaner test for equilibrium behavior. Further, prices are expected to be weakly lower in Random as compared to Discriminatory.

To investigate these two comparisons, we estimate a linear panel regression where the dependent variable is the price charged at line \( j \) by seller \( i \) in market \( t \) and the independent variables are a constant term, a dummy variable for the Random treatment, a dummy variable that takes a value of 1 if the price was set at a two-line seller’s higher priced line and 0 otherwise, a similar dummy for the lower priced line of a two line seller, a market trend, interaction terms between the Random treatment and the higher price and lower price dummy variables. Thus, the baseline case captured by the constant term is the price of the single-line seller in the Discriminatory treatment. We include random effects for each seller to
control for repeated measurements, and we cluster standard errors at the session level (i.e. at the level of each seller-pair in the Discriminatory treatment and across all firms in the Random treatment).

Table 3 reports the regression output for comparing the fixed and random rematching protocols when premium express checkout is possible. The estimated coefficients on the Random treatment dummy and the interactions between Random and the dummies for High and Low Price lines are all insignificantly different from 0; thus we find no evidence of significant differences in pricing behavior between Random and Discriminatory. This finding suggests that the matching protocol does not impact behavior and in particular, that repeated play is not facilitating tacit collusion in this setting.

We now turn to the question of how well the mixed strategy equilibrium of our model predicts behavior in this situation. The evidence suggests that even though behavior is similar to across the Random and Discriminatory treatments, neither treatment exhibits prices consistent with the theoretical predictions. Specifically, the expected price at each line in equilibrium based upon the mixing distribution presented in Section 3 is $p_1 = 4.9$, $p_2^A = 6.3$, and $p_2^B = 8.3$. In the Discriminatory (Fixed) treatment the average observed prices were $p_1 = 4.78$, $p_2^A = 4.68$, and $p_2^B = 6.55$ and in the Random treatment they were $p_1 = 4.14$, $p_2^A = 3.68$, and $p_2^B = 5.40$. A Wald test rejects the joint hypothesis that the observed prices match the equilibrium predictions in both the Discriminatory and Random treatments ($\chi^2 = 47.26$ and 58.15, respectively, p-values < 0.01). As compared to the theoretical prediction, it appears the sellers are too competitive, a result similar to Aloysius, et al. (2012) that also uses posted offer market experiments to explore pricing strategies in retail markets.

5.4 Results of Manipulation Check – Patient Treatment

In the Patient treatment, all buyers simply select the lowest price line, no one will balk, and line length is irrelevant. This essentially creates Bertrand competition and all prices should be set to one in the one shot game. Though the repeated nature of interaction supports other mutually beneficial price combinations, we expect lower prices in the Patient treatment than in the Discriminatory treatment. To test this hypothesis, we estimate a linear panel regression where the dependent variable is the price charged at line $j$ by seller $i$. The independent variables are as in the regression reported in the previous subsection except that the dummy variable for the Random treatment is replaced by a dummy variable for the Patient treatment. Again, the baseline for comparison captured by the constant term is the price of a single line seller in the Discriminatory treatment. We include random effects for each seller to control for repeated measurements and we cluster standard errors at the session level (i.e. at the level of each seller-pair).

The estimation results are reported in Table 4. The negative and significant estimated coefficient of the Patient treatment dummy variable combined with the fact that none of the interaction terms

10 For completeness, average prices in the Uniform treatment were $p_1 = 6.06$ and $p_2^A = p_2^B = 6.61.$
involving the *Patient* treatment are positive and significant indicates that prices are indeed lower on average in the *Patient* treatment, consistent with the comparative statics predictions of the model. This result indicates that subjects are reacting as expected to the customer characteristics in this market and that sellers understand the environment.

The positive and significant estimated coefficient for the two-line seller’s high price indicates that two-line sellers engage in price discrimination in the *Discriminatory* treatment, and the negative and significant coefficient on the interaction term for the high price line in the *Patient* treatment offsets this difference indicating that two-line sellers are not engaging in price discrimination when all customers are patient, consistent with the Bertrand prediction. Formally, this conclusion requires a test of the hypothesis that the sum of the High Price Line and *Patient* x High coefficients equals the sum of the Low Price Line and *Patient* x Low coefficients. Based on a Wald test, this hypothesis cannot be rejected ($\chi^2 = 2.23$, p-value = 0.135).

While prices are lower in the *Patient* treatment and price discrimination is not observed, the prices in this treatment are higher than the Bertrand predictions. The observed average prices were $p_1 = 3.15$ and $p_2^A = p_2^B = 3.52$, where the two-line seller’s prices are averaged because price discrimination is not observed. A Wald test rejects the joint hypothesis that $p_1 = p_2^A = p_2^B = 1$ in the *Patient* treatment ($\chi^2 = 16.74$, p-value < 0.01). This finding is not surprising in light of previous Bertrand competition experiments which have found that sellers are typically competitive, but rarely so competitive that they push prices (and profits) all the way down to the predicted level (see the discussion of posted offer market experiments in Davis and Holt (1993)).

6. Discussion

When we began this project, we were struck by the puzzling rarity of time-cost based price discrimination in situations where customers have to physically queue for service in competitive markets.\(^{11}\) We *don’t* normally observe restaurants (formally) allowing customers to pay for priority seating or banks charging higher withdrawal fees on some ATMs. We do not observe mass retailers who often operate more than twenty registers offering a faster checkout line at a higher price. This form of time based price discrimination is distinct from package shippers, film developers, and dry cleaners

\(^{11}\) Exceptions, such as priority boarding for travelers on an airline, prove the rule since many of these customers have earned their status by repeatedly flying on a single airline and essentially giving the chosen airline market power in exchange for priority service. Borenstein and Rose (1994) argue that price dispersion in the airline industry may be partly driven by frequent flyer programs. See Carlsson and Lofgren (2006) for an empirical estimate of the switching costs imposed by frequent flyer programs. The examples given earlier of HOT lanes and Six Flags passes are from essentially monopoly markets. There are also some seemingly forgone discrimination opportunities among monopoly providers. For example, some spectators at a ballgame (ourselves included) would presumably be willing to pay an even higher price for beer if it meant avoiding a long line in the concourse while missing the game.
offering faster completion times for a higher price as these services can be viewed as different goods and the process occurs after the transaction.

One initially plausible reason for the absence of time-cost price discrimination is that people might be offended by such practices (for a general discussion of customer acceptance of various polices see e.g. Savage and Torgler (2010)), but as the toll road and amusement park examples suggest, such moral concerns aren’t always a deterrent to discriminatory pricing. Moreover, customer distaste would likely be reduced or eliminated as shoppers came to realize they were made better off by the practice at exactly the point at which it is most important to them, i.e. when their time is most valuable.

Our experimental findings suggest an alternative reason why time cost price discrimination, such as paying a premium for express checkout, is rare: when sellers are in direct competition for customers, queue price discrimination can be harmful to the sellers and industries that employ it.\textsuperscript{12} Specifically, we find that average posted prices are lower when the multi-line seller cannot engage in price discrimination. This change is relatively small theoretically, but substantial behaviorally. As a result of the changing posted prices associated with allowing wait cost based price discrimination by the multi-line seller, average paid prices fall, reducing profits and increasing consumer surplus both directly and indirectly via a reduction in balking. Uniform pricing across queues by the multi-line seller appears to be more profitable when there is a mix of patient and impatient customers because it forces the multi-line seller to abandon the impatient customers when pursuing the patient ones. In contrast, with discrimination the multi-line seller can attempt to capture both markets, which leads the single-line rival to price more aggressively, thus driving down the price for patient shoppers, which in turn limits the premium that impatient customers are forced to pay. As predicted by the model and demonstrated in a separate experiment, when all customers are patient the marketplace become very competitive and prices fall.

Our main findings are based upon the situation where rivals interact repeatedly for an indefinite horizon. While this is more reflective of the naturally occurring world, the threat of future punishment can theoretically support cooperation. Thus, we conducted an additional experiment where each interaction was one-shot in order to give the model its best shot. We find no real differences between the repeated game and the one-shot game. This suggests that collusion may not be as problematic in more complicated market games as it is in simpler duopoly games or prisoner’s dilemma games more generally (see Davis and Holt 1993 for a discussion).\textsuperscript{13}

\textsuperscript{12} This finding is similar to that in Bester and Patrakis (1996) who find that coupon-based price discrimination can be harmful to firms in oligopolistic industries and to Shaffer and Zhang (2000) who find that price discrimination can lead to lower prices and profits in markets with switching costs.

\textsuperscript{13} Added complexity may also explain why collusion is rarely observed in repeated games with more than three players (see for example Huck, et al. 2004).
Our work contributes to the already rich literature on multi-attribute competition in which sellers compete on both price and service time (see Section 2 above). At the same time, we believe that our work suggests several important new directions for research in retail economics. For example, we treat the number of queues that are each seller operates as exogenous, but this decision is ultimately endogenous and can be varied with the expected demand such as when a large 24-hour grocery hires fewer cashiers for the graveyard shift. Another extension that advances in technology will likely facilitate is the ability to dynamically adjust the price of express checkout with queue length, something akin to the toll pricing on CA 91.

**Ethics Statement**
This study was conducted with the approval of the Institutional Review Board of the University of Arkansas. All experiments were conducted with the informed consent of 48 healthy adult subjects who were free to withdraw from participation at any time. Only individuals who voluntarily entered the experiment recruiting database were invited, and informed consent was obtained in writing prior to the beginning of each experimental session.
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|                  | Uniform | Discriminatory | Random | Patient |
|------------------|---------|----------------|--------|---------|
| $p_1$            | 6.06    | 4.78           | 4.14   | 3.15    |
|                  | (1.98)  | (1.88)         | (1.53) | (2.35)  |
| $p_2^A$          | 6.61    | 4.68           | 3.68   | 3.23    |
|                  | (2.03)  | (1.74)         | (1.30) | (2.15)  |
| $p_2^B$          | ___     | 6.55           | 5.40   | 3.81    |
|                  |         | (1.62)         | (1.71) | (2.56)  |
| $\pi_1$          | 273.89  | 211.29         | 162.08 | 145.80  |
|                  | (138.48)| (90.07)        | (66.90)| (178.36)|
| $\pi_2$          | 452.45  | 351.76         | 296.52 | 178.37  |
|                  | (154.01)| (131.50)       | (88.83)| (206.51)|
| Price Paid       | 6.34    | 4.90           | 4.09   | 2.61    |
|                  | (2.02)  | (1.77)         | (1.39) | (1.84)  |
| Buyer Surplus    | 593.83  | 738.67         | 847.95 | 1034.84 |
|                  | (215.77)| (173.68)       | (129.03)| (234.94)|
| No. Balking      | 1       | 0.275          | 0      | 0.08    |
|                  | (2.26)  | (1.18)         |        | (0.45)  |

Standard deviations in parentheses.
### Table 1: Mean Session-Level Treatment Effects, *Uniform vs. Discriminatory*

|        | (1)                  | (2)                  | (3)                  | (4)                  | (5)                  |
|--------|----------------------|----------------------|----------------------|----------------------|----------------------|
|        | Price Charged        | Profit               | Price Paid           | Buyer Surplus        | Number Balking       |
| Market | 0.0195               | 1.835                | 0.0231               | -2.622               | 0.0291               |
|        | (0.0187)             | (2.089)              | (0.0189)             | (2.168)              | (0.0381)             |
|        | *Discriminatory*     |                      |                      |                      |                      |
|        | -1.097**             | -163.3**             | -1.407**             | 144.8**              | -1.450*              |
|        | (0.525)              | (71.01)              | (0.612)              | (66.60)              | (0.859)              |
|        | Constant             |                      |                      |                      |                      |
|        | 6.032***             | 688.7***             | 5.632***             | 647.6***             | 1.403*               |
|        | (0.508)              | (57.95)              | (0.503)              | (59.59)              | (0.846)              |
| R²     | 0.122                | 0.154                | 0.173                | 0.142                | 0.047                |
| N      | 480                  | 480                  | 480                  | 480                  | 480                  |

Standard errors in parentheses, clustered at the session level.
Statistical significance designated as follows: * p<0.10, ** p<0.05, *** p<0.01

### Table 2: Firm-Level Treatment Effects, *Uniform vs. Discriminatory*

|        | (1)                  | (2)                  | (3)                  | (4)                  |
|--------|----------------------|----------------------|----------------------|----------------------|
|        | \( p_1 \)            | \( \frac{p_2^A + p_2^B}{2} \) | \( p_2^A \)          | \( p_2^B \)          |
| Market | 0.0178               | 0.0204               | 0.0235               | 0.0129               |
|        | (0.0178)             | (0.0204)             | (0.0209)             | (0.0152)             |
|        | *Discriminatory*     |                      |                      |                      |
|        | -1.279**             | -1.006**             | -1.942***            | 0.483                |
|        | (0.622)              | (0.508)              | (0.633)              | (0.540)              |
|        | Constant             |                      |                      |                      |
|        | 5.698***             | 6.199***             | 6.135***             | 5.799***             |
|        | (0.486)              | (0.540)              | (0.550)              | (0.449)              |
| R²     | 0.109                | 0.092                | 0.226                | 0.024                |
| N      | 480                  | 480                  | 480                  | 480                  |

Standard errors in parentheses, clustered at the session level.
Statistical significance designated as follows: * p<0.10, ** p<0.05, *** p<0.01
Table 3. Firm-Level Price Comparisons, Discriminatory (Fixed) vs. Random

|                        | (1) |                   |
|------------------------|-----|-------------------|
|                        | Price| Charged           |
| Random                 | -0.642| (0.426)          |
| High Price Line        | 1.762***| (0.467)        |
| Low Price Line         | -0.108| (0.270)          |
| Random × High          | -0.504| (0.467)          |
| Random × Low           | -0.350| (0.270)          |
| Market                 | -0.0140| (0.0151)        |
| Constant (Discriminatory) | 5.071***| (0.524)    |

\[ R^2 \] 0.247  
N  1440

Standard errors in parentheses, clustered by session.  
Statistical significance designated as follows: * p<0.10, ** p<0.05, *** p<0.01
Table 4. Firm-Level Price Comparisons, *Discriminatory (Fixed) vs. Patient*

|                      | (1) Price Charged |
|----------------------|-------------------|
| Patient              | -1.629**, (0.729) |
| High Price Line      | 1.762***, (0.452) |
| Low Price Line       | -0.108, (0.261)   |
| Patient $\times$ High| -1.104*, (0.644)  |
| Patient $\times$ Low | 0.188, (0.306)    |
| Market               | 0.0249, (0.0170)  |
| Constant (Discriminatory) | 4.272***, (0.537) |

$R^2$ 0.253
N 1440

Standard errors in parentheses, clustered by session.
Statistical significance designated as follows: * p<0.10, ** p<0.05, *** p<0.01
Figure 1. Best Response Functions when Express Checkout Premium is Not Possible
Figure 2. Subject Seller Interface
Figure 3. Time Series of Prices by Treatment, Averaged across Sessions.
Appendix A: Experiment Instructions (Discriminatory Treatment)

Two-Line Seller
You are participating in a study about economic decision making. You will be paid in part based upon your decisions, so it is important that you understand the instructions completely. If at any point you have a question, please raise your hand. Please do not communicate with anyone else during this study.
You will be in the role of a firm. You will be randomly matched with another person in the study who will also be in the role of a firm. Neither of you will know the identity of the person you are matched with, but you will remain matched with this other firm for the entire study.

The two firms interact in a market. Both firms set prices and then buyers decide if they want to make a purchase or not. Buyers only want at most one unit and are willing to pay up to $10 for it if they do not have to wait. Therefore, sellers cannot charge more than $10. It takes a firm 1 second to serve a buyer in a check-out line. Half of the buyers incur no wait cost; however, the other half of the buyers are impatient and incur a $2 cost for each second they spend waiting in line to check-out. This means that the most an impatient buyer will pay is $8 if there is already 1 buyer in the line, $6 if there are 2 buyers in the line, $4 if there are 3 buyers in the line, and $2 if there are 4 people in line. Since a seller cannot set a price at or below $0 an impatient buyer will never join a line that already has 5 or more people in it. Notice that a buyer does not incur any cost while checking-out, only while waiting in line for others to check out. For simplicity, sellers can only whole dollar prices.

In this experiment, the computer will act as the buyers. Each computer buyer will look at the prices and wait times to determine whether or not to make a purchase. Each computer buyer will always take its best deal (buy from the firm offering it the smallest total cost, which is price + wait cost) assuming that the cost is not more than $10. The computer buyer will break any tie between its best deals randomly. If the total cost is greater than $10, the buyer will exit the market without buying.

The experiment proceeds in a series of periods. At the start of each period you and the other firm will set prices. After that, some number of buyers will arrive every second for 60 seconds. The number that arrive each second follows a particular Poisson distribution with an average arrival rate of 2 potential buyers per period, which means that the chance that:

0 potential buyers arrive is 0.14 or 14%
1 potential buyer arrives is 0.27 or 27%
2 potential buyers arrive is 0.27 or 27%
3 potential buyers arrive is 0.18 or 18%
4 potential buyers arrive is 0.09 or 9%
5 potential buyers arrive is 0.04 or 4%
6 potential buyers arrive is 0.01 or 1%

You can visualize this as a bucket with 100 balls in it. 14 of the balls are labeled “0”, 27 are labeled “1”, 27 are labeled “2”, 18 are labeled “3”, 9 are labeled “4”, 4 are labeled “5”, and 1 is labeled “6”. Each second one of these balls is drawn out, the number on the ball determines how many customers arrive that second, and then the ball is placed back in the bucket. This is shown graphically below.
As buyers show up, they will make their decisions and get in a line if they decide to make a purchase. The choices of the buyers who arrive each second will be shown on your screen under the label “New Arrivals.” Each person in line at any point in time will be shown on your screen as a ✑. Notice that new arrivals have to wait in line behind everyone who is already in line. Buyers who chose not to buy are labeled “Not Served.” After all of the buyers who arrive in the 60 second period have finished shopping, both you and the other firm will have the opportunity to change your prices and the whole process will repeat.

Your firm will operate two check-out lines and can charge different prices for each line. The other firm will only operate a single check-out line. This will not change for the entire study.

A table on your screen will record prices each period along with the number of buyers served and profits. After the study is complete, you will be paid based upon your total profit. Your profit each period is simply the price you charge times the number of buyers you serve (you do not have any costs). Your total profit is simply the sum of your profit each period. The amount that you will be paid in cash is your total profit / 1500 = $US payment.
One-Line Seller

You are participating in a study about economic decision making. You will be paid in part based upon your decisions, so it is important that you understand the instructions completely. If at any point you have a question, please raise your hand. Please do not communicate with anyone else during this study.

You will be in the role of a firm. You will be randomly matched with another person in the study who will also be in the role of a firm. Neither of you will know the identity of the person you are matched with, but you will remain matched with this other firm for the entire study.

The two firms interact in a market. Both firms set prices and then buyers decide if they want to make a purchase or not. Buyers only want at most one unit and are willing to pay up to $10 for it if they do not have to wait. Therefore, sellers cannot charge more than $10. It takes a firm 1 second to serve a buyer in a check-out line. Half of the buyers incur no wait cost; however, the other half of the buyers are impatient and incur a $2 cost for each second they spend waiting in line to check-out. This means that the most an impatient buyer will pay is $8 if there is already 1 buyer in the line, $6 if there are 2 buyers in the line, $4 if there are 3 buyers in the line, and $2 if there are 4 people in line. Since a seller cannot set a price at or below $0 an impatient buyer will never join a line that already has 5 or more people in it. Notice that a buyer does not incur any cost while checking-out, only while waiting in line for others to check out. For simplicity, sellers can only whole dollar prices.

In this experiment, the computer will act as the buyers. Each computer buyer will look at the prices and wait times to determine whether or not to make a purchase. Each computer buyer will always take its best deal (buy from the firm offering it the smallest total cost, which is price + wait cost) assuming that the cost is not more than $10. The computer buyer will break any tie between its best deals randomly. If the total cost is greater than $10, the buyer will exit the market without buying.

The experiment proceeds in a series of periods. At the start of each period you and the other firm will set prices. After that, some number of buyers will arrive every second for 60 seconds. The number that arrive each second follows a particular Poisson distribution with an average arrival rate of 2 potential buyers per period, which means that the chance that:

- 0 potential buyers arrive is 0.14 or 14%
- 1 potential buyer arrives is 0.27 or 27%
- 2 potential buyers arrive is 0.27 or 27%
- 3 potential buyers arrive is 0.18 or 18%
- 4 potential buyers arrive is 0.09 or 9%
- 5 potential buyers arrive is 0.04 or 4%
- 6 potential buyers arrive is 0.01 or 1%

You can visualize this as a bucket with 100 balls in it. 14 of the balls are labeled “0”, 27 are labeled “1”, 27 are labeled “2”, 18 are labeled “3”, 9 are labeled “4”, 4 are labeled “5”, and 1 is labeled “6”. Each second one of these balls is drawn out, the number on the ball determines how many customers arrive that second, and then the ball is placed back in the bucket. This is shown graphically below.
As buyers show up, they will make their decisions and get in a line if they decide to make a purchase. The choices of the buyers who arrive each second will be shown on your screen under the label “New Arrivals.” Each person in line at any point in time will be shown on your screen as a ‼. Notice that new arrivals have to wait in line behind everyone who is already in line. Buyers who chose not to buy are labeled “Not Served.” After all of the buyers who arrive in the 60 second period have finished shopping, both you and the other firm will have the opportunity to change your prices and the whole process will repeat.

Your firm will only operate a single check-out line. The other firm will operate two check-out lines and can charge different prices for each line. This will not change for the entire study.

A table on your screen will record prices each period along with the number of buyers served and profits. After the study is complete, you will be paid based upon your total profit. Your profit each period is simply the price you charge times the number of buyers you serve (you do not have any costs). Your total profit is simply the sum of your profit each period. The amount that you will be paid in cash is your total profit / 1000 = $US payment.
Appendix B: Comprehension Quiz

1. If the experimenter makes 100 draws from the bucket and each time replaces the drawn ball after recording the number written on it, how many of those draws (on average) will be “2” balls?
   a. 14
   b. 27
   c. 9
   d. 50

For the following questions, suppose the market looks as follows:
   The price on line 1 is $5, and there are 3 buyers in line.
   The price on line 2 is $7, and there is 1 buyer in line.
   The price on line 3 is $7, and there are 2 buyers in line.

2. If a buyer arrives with a waiting cost of $0/second, which line would the buyer choose to enter?
   a. Line 1
   b. Line 2
   c. Line 3
   d. The buyer wouldn’t enter a line

3. Now suppose the buyer’s cost is $2/second, which line would the buyer choose to enter?
   a. Line 1
   b. Line 2
   c. Line 3
   d. The buyer wouldn’t enter a line

4. True or False: The firm that operates two lines can charge different prices at the two lines.  
   ___________