Case study

Gagan Pvt Ltd. was established in 1995. The company started manufacturing of Water Geyser with a brand name of 'Ganga'. During initial 10 years, the company made good profits. But, its profits gradually declined due to competition from national brands. The promoters of the company had a committed team of workers who were constantly working on Research and Development. Finally, they came out in the year 2006, with an innovative product, named Maha Ganga which runs even at very low voltage and consumes less electricity. Thus, the company is monopoly manufacturer of 'Maha Ganga'. The company is currently supplying its products in geographically separated markets of Punjab and Haryana. The company is currently charging the same price in Punjab and Haryana. The chief Economist of the company has informed the top management that the price elasticity of demand at currently-charged price is 3 in Punjab and 5 in Haryana. The top management is planning to charge two different prices in Punjab and Haryana, In order to make more profits.

1. Will it be possible for the company to charge two different prices in Punjab and Haryana? If yes, under what conditions? Explain.
2. Will it be profitable for the company to charge two different prices in Punjab and Haryana? - Explain.

(Assume that transport cost for supplying the product in Punjab and Haryana is the same for the company.)