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## Price Discrimination through Refund Contracts in Airlines\*

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**Abstract**

This paper shows how an airline monopoly uses refundable and non-refundable tickets to screen consumers who are uncertain about their travel. Our theoretical model predicts that the difference between these two fares diminishes as individual demand uncertainty is resolved. Using an original data set from U.S. airline markets, we find strong evidence supporting our model. Price discrimination opportunities through refund contracts decline as the departure date nears and individuals learn about their demand.

*Keywords:* Price discrimination; Refund contracts; Airlines; Individual demand learning

*JEL Classifications:* C23; D42; D82; L93

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