Option Package Bundling*

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Abstract

Option package bundling problem arises if there is an optional good, which is valuable only if a certain (non-optional) good is consumed together. A firm that sells both types of goods then faces the decision of whether to sell all goods only in a package (pure bundling), or to sell goods both with or without optional goods, leaving the choice of consuming them together to buyers (mixed bundling). We study a model of a monopolist's option package bundling problem, in which the monopolist produces two types of indivisible goods, regular (i.e., non-optional) and optional ones, with no marginal costs, and buyers' valuations are independently and uniformly distributed. We derive the optimal bundling prices, and verify that mixed bundling outperforms pure bundling if and only if the range of optional good valuation exceeds a certain size. This suggests an interesting testable implication: the smaller the diversity of the valuation of an optional good, the more likely that the monopolist adopts pure bundling.

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