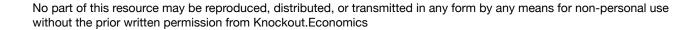
Chapter 13 Price

Key terms

- 1. Cost-plus pricing: the cost of manufacturing the product plus a profit mark-up.
- 2. Competitive pricing: when the product is priced in line with or just below competitors' prices to try to capture more of the market.
- 3. Penetration pricing: when the price is set lower than the competitors' prices in order to be able to enter a new market.
- 4. Price skimming: where a high price is set for a new product on the market.
- 5. Promotional pricing: when a product is sold at a very low price for a short period of time.
- 6. Price elasticity of demand: a measure of the responsiveness of demand to change in price.



1. Pricing Method and an appropriate pricing method

Pricing Method	Explanation	Example	Advantages	Justification
Cost-plus pricing	Is the cost of manufacturing products plus profit mark-up	Single product business	Easy to calculate	If there are few competitors, it is possible for the business to set a markup price.
Competitiv e pricing	Is when the product is priced in line with or just below competitors' prices to try to capture more of the market.	E.g. gold	Demand is likely to be price elastic, if the business sells products at low price, they will gain higher revenue.	- Consumers may not buy at a higher price unless they think it is better quality Companies need to do research about competitor prices which is costly.
Penetration Pricing	Is when the price is set lower than the competitors in order to enter the new market.	Low price for a new product in a competitive market	It is likely to achieve high market share quickly.	Profit might be low.
Price skimming	Is where a high price is set for new innovation or new product in the market.	High price for newly developed products	- This can earn high profit and help to cover development costs.	

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Pricing	Explanation	Example	Advantages	Justification
Method				
Promotional	Is when a	Low price to	- Reduce stock	-The sale
Pricing	product is sold	sell unwanted	- It can help to	revenue will be
	at a very low	inventories	renew interest	lower because
	price for a		in a business if	the price of
	short period.		sales are	each item will
			falling	be low
Psychological	Is an approach	Setting a high	-It ensures that	-The
pricing	when particular	price for a	sales are made	competitors
	attention is	quality	by reinforcing	may do the
	paid to the	branded	consumers'	same and it
	effect that the	product	perceptions of	reduces the
	price of a	Charging 99\$	the product	effect.
	product will	A STORY	- It increases	
	have upon		brand image	
	consumers'		when the price	
	perceptions of		is set high	
	the product.			
Dynamic	charging	E.g. airline	-Increase	-It increases in
pricing	different		revenue and	cost as prices
	consumer		profit	are constantly
	groups			changing.
	different prices			
	for the same			
	product.			

- 2. <u>Understand the significance of price elasticity: difference between price elastic demand and price inelastic demand</u>
- Price elastic of demand: The responsiveness of demand to a change in price. Or
 % change in quantity demand / % change in price
- Price-elastic demand: the percentage change in quantity demanded is greater than the percentage change in price. (PED >1) eg. Fashion cloth, Unnecessary goods

To raise total revenue: Business should decrease price as demand will increase by the larger proportion.

Price-inelastic demand :the percentage change in quantity demanded is less than
the percentage change in price. (0<PED <1) eg. necessary goods, addictive
products.

To raise total revenue : Business should increase price as demand will decrease by the smaller proportion.

