Price

- Competition based
- Market based
- Elasticity

Pricing Strategies

- Cost-plus pricing (fixed eg 25%)

% of profit above the costs

- Marginal-cost pricing (eg internet)

When all fixed costs are covered

- Contribution pricing = profit only above the certain number sold

Competition-based

- Price leadership = small following the big
- Predatory pricing = price to push competitor out. e.g. Amazon
- Going-rate pricing = not able to control. e.g. farmers

Market-based

- Price penetration = low price to break in
- Price skimming = innovative product
- Price discrimination = different at different time, not easily traded

Market-based

- Loss leaders = low prices to tempt customers into the store
- Psychological pricing = 19.99

Not for luxury goods. Perception.

- Promotional pricing = low demand, eg BOGOF or half price to boost customer awareness

Supply and demand

- Prices affect demand, people might buy a substitute or from a competitor
- Invisible hand. Adam Smith
- Low supply for a wanted good creates a shortage pushing the prices up

Elasticity

- **Price elasticity of demand**

$$\frac{\text{\% change in demand}}{\text{\% change in price}}$$

More than 1 = elastic

Less than 1 = inelastic

Exactly 1 = Unitary elasticity

Elasticity

- **Income elasticity of demand**

$$\frac{\%\text{change in demand}}{\%\text{change in income}}$$

Very Income elastic = Luxury goods

Usual situation = Normal goods

Negative YED = Inferior goods

Elasticity

- **Cross-elasticity of Demand XED**

$$XED = \frac{\%\text{change of demand of good A}}{\%\text{change in price of good B}}$$

Positive XED = substitutes

Negative XED = complements

Zero XED = no relation

Elasticity

- **Advertising elasticity of demand**

  <u>%change in demand</u>

  %change in adv exp

More than 1 = AED elastic

Less than 1 = inelastic

Goods to public VS goods to business