

# 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**

% change in demand

% change in price

More than 1 = elastic

Less than 1 = inelastic

Exactly 1 = Unitary elasticity

# Elasticity

- **Income elasticity of demand**

%change in demand

%change in income

Very Income elastic = Luxury goods

Usual situation = Normal goods

Negative YED = Inferior goods



# Elasticity

- **Cross-elasticity of Demand XED**

%change of demand of good A

%change in price of good B

Positive XED = substitutes

Negative XED = complements

Zero XED = no relation

# Elasticity

- Advertising elasticity of demand

%change in demand

%change in adv exp

More than 1 = AED elastic

Less than 1 = inelastic

Goods to public VS goods to business