

**Pricing strategies**

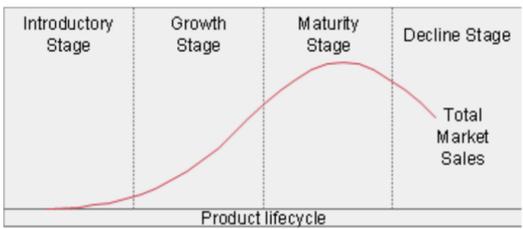
**Peak-load pricing**

price varies over time as demand changes

**Price discrimination**

- charge different prices for various units of a single product
- company must be able to control the price --> imperfect competition and there must be different price elasticities in the market
- 3 degrees
  - First degree: sell on marginal utility of each consumer
  - Second degree: charge uniform price per unit for a specific quantity or block of output
  - Third degree: Charge a price in different segments of market
- by the nature of product
  - geography
  - Type of demand
  - by time

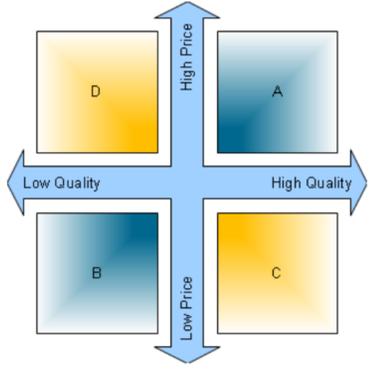
**Product lifecycle**



- Launch
  - Promotional or penetration pricing: gain market share
  - Price skimming policy: set price high before competition enters market

**Marketing Mix**

- 4 P's
  - Product: Perceived value by the customer and utility rather than just costs based
  - Place: all about distribution --> where to sell it, how to sell it, distribution costs
  - Promotion: supports effective branding strategy; might reduce price elasticity through market segmentation
  - Price: high brand loyalty leads to high prices
- another 3 P's for services
  - People: quality & attitude of people who provide service
  - Processes: efficiency of delivery, payments etc.
  - Price: Customer perception



**Competitive environment**

- Perfectly competitive market: Firm is price taker
- Monopoly market: Firm is price maker; Sometimes setting price low to build up market entry barrier --> entry limit pricing
- Monopolistically competitive market
- Oligopoly market: Collusion (cartels); Price leadership

**Profit maximisation = Marginal revenue = Marginal costs**

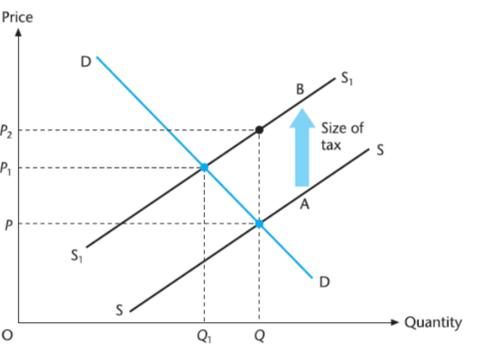
$TR = P \times Q$   
 Consider Supply & Demand as they tend to go for an equilibrium = Price  
 Price should clear market

**Generic pricing strategies**

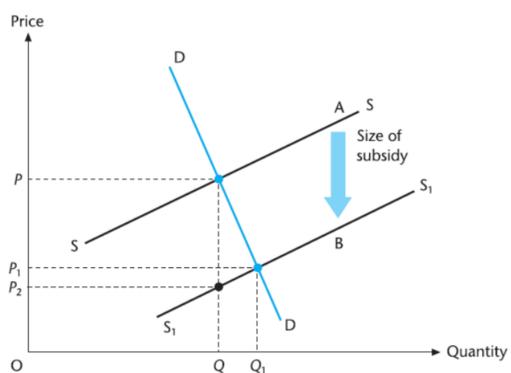
- Marginal cost pricing: set prices according to marginal costs of production; Price is set to level of marginal costs; Mostly in competitive market --> market price
- Incremental pricing: Change in TR is bigger than change in variable costs
- Breakeven pricing: Price of product is set so that  $TR = TC$ ; Profit maximisation is where  $q^*$  is the max distance between TR and TC
- Mark-up pricing: Similar than Breakeven but rate of profit built into price (fullcost pricing);  $m = (P-AC) / AC$ ,  $P = AC (1+m)$ ; ignores demand completely --> not maximal optimisation

**Taxes**

- Demand: When demand = elastic than tax leads to small price increase borne by producer; When demand = inelastic than tax leads to high price increase borne by consumer
- Supply: When supply = inelastic than tax falls more on supplier because they can't nullify the impact by cutting output; When supply = price elastic than tax falls less heavily on supplier because they can reduce output significantly



**Subsidies**



**Cobweb theory**

there is a time lag between change in supply and demand --> Producers decide on  $S(n+1)$  where  $n = \text{year}$

