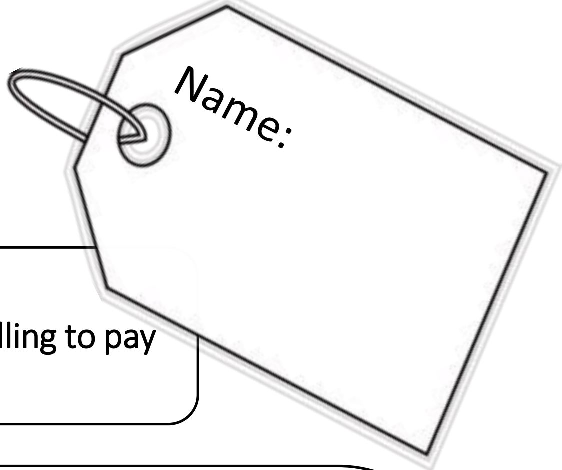


Setting Prices

Resources used to make the good or service

- The more it costs to produce an item the higher the price charged
- Cost depends on the amount and type of resources used in production
- Resources are all the INPUTS in the production process
- Resources are grouped into four categories

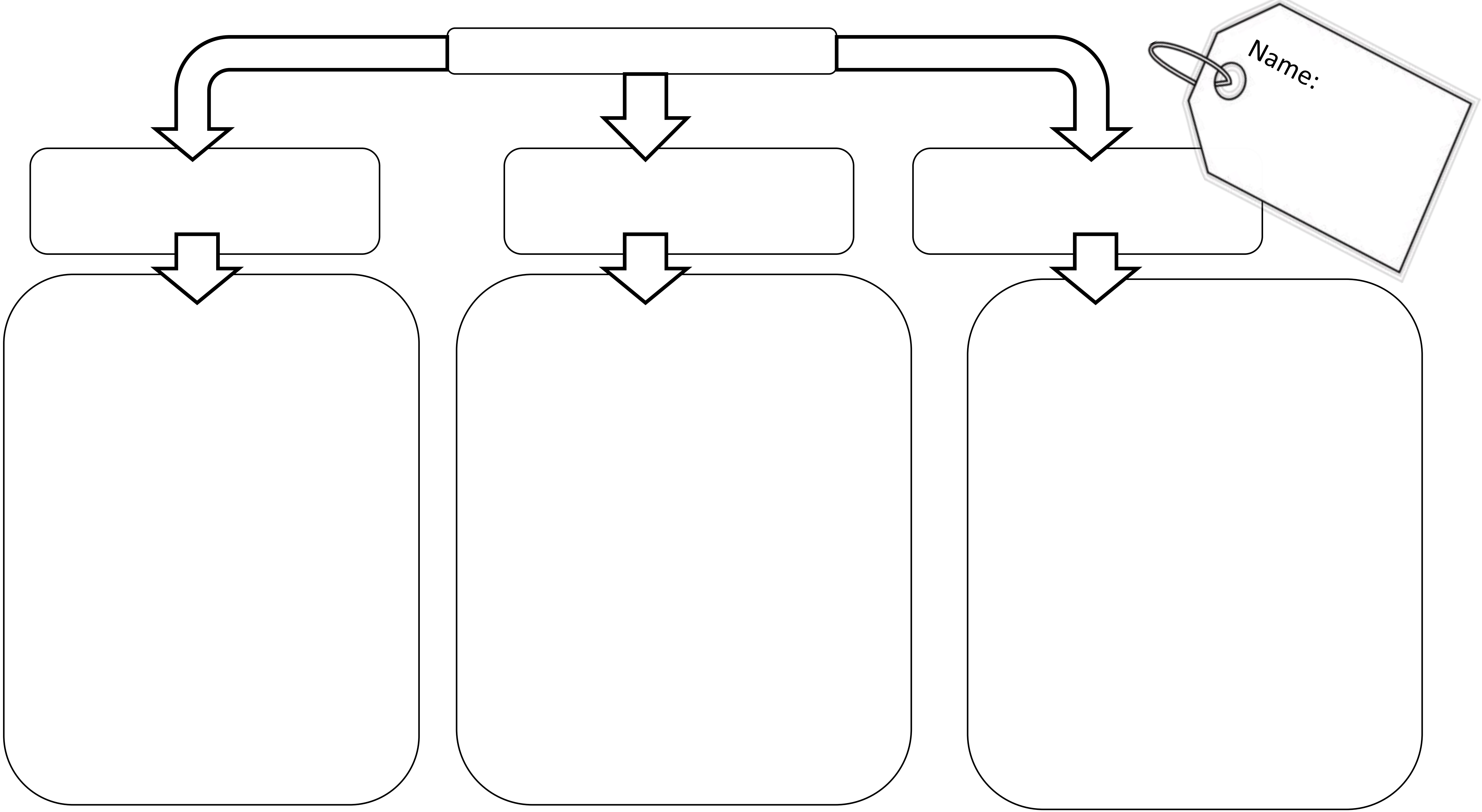
1. Land
2. Labour
3. Capital
4. Enterprise

The amount of profit the firm wants to make

- Firms want to make a reasonable amount of profit
- Many firms use a ‘cost-plus’ pricing strategy.
- Costs of producing the item is calculated and desired level of profit added.
- Sometimes firms will offer their product at a low price for a short time period.
- Helps firm enter a new market
- Puts pressure on competitors
- Higher profit may be earned in the long run.

What customers are willing to pay

- Demand for the product needs to be considered
- Sensitivity of demand is an important element
- If demand is high, firms can set a higher price
- If there is a lot of competition in the market, firms should be careful not to charge too much or not enough
- Advertising can influence demand and make consumers want their product over other substitute products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