# Lecture 7 Answers

## Question One

For many goods and services where there are a large number of buyers and sellers:

As the price decreases, then customer demand will increase as some consumers buy more and new consumers can afford the product.

As the price decreases, the amount supplied to the market will decrease as current suppliers produce less and some suppliers are forced out of the market.

For a supplier, if price is set too high, the product will be unsold as supply will outstrip demand.

For a supplier, if price is set too low, there will be excess demand and price will rise until demand equals supply.

## Question Two

Although a product may be very similar to others, suppliers may seek to charge a premium for the product by distinguishing it by reputation/brand, quality, advertising, fashion. By seeking to set the product out as a luxury good, the company can use prestige pricing. If a brand loses its status the price will slump.

## Question Three

Ryanair will have to compete against other airlines, ferry companies and rail companies.

Competition is strong and so the price charged must be competitive.

Many of the costs of the airline are fixed (they cannot be reduced/changed in the short term) and therefore Ryanair must make sure it maximises its revenue.

Where possible, costs are minimised with the removal of free catering, use of secondary airports and online booking.

Revenue is maximised through dynamic pricing. Fares get higher the closure to departure dates. Where Ryanair is dominant at an airport, more early discounts are offered.

When faced with high competition, Ryanair does not necessary lower prices but offers more discount schemes.

There are fewer discounts on fully booked routes, long haul or high frequency flights.

## Question Four

Supermarkets may advertise one or two products at below market price. These will be loss leaders which encourage customers choose that supermarket and buy a lot more products increasing overall profitability.

OPEC with oil prices may reduce the oil price to force competition with higher costs out of the market.