UNIT – 4

INTRODUCTION TO MARKETS AND PRICING STRATEGIES

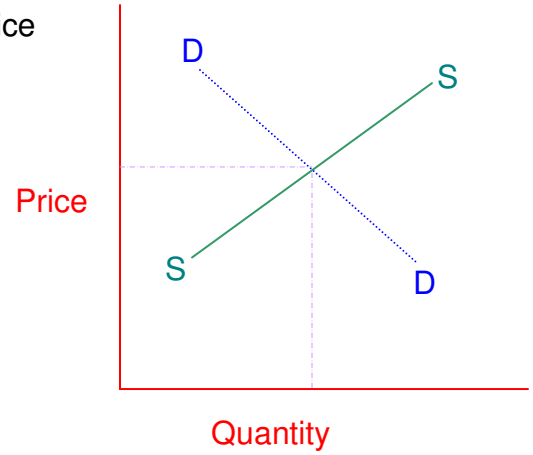
Any business enterprises is engaged in the production of some goods/services, incurring same expenditure on its production, it must set a price for the same to sell it in the market

Price Definition : Price denotes the exchanges value of unit of a goods expressed in terms of money

Price determinants : The price of the product determined by supply and demand price will be fixed at a point where the supply and demand are at a equilibrium.

Equilibrium : Equilibrium means the price at which demand and supply of a commodity equal is known as equilibrium price

Price	Demand	Supply
50	100	200
40	120	180
30	150	150
20	200	110
10	300	50



Market: Market is a place where buyer and seller meet goods and services are offered for the sale and transfer of ownership occurs.

A market may be also defined as the demand made by a certain group of potential buyers for a goods or service

Different Markets:

1) Perfect Markets or Perfect Competition
2) Imperfect Markets or Imperfect Competition
    a) Monopoly Competition
    b) Monopolistic Competition
    c) Oligopoly
    d) Duopoly

e) Monopsony

f) Duopsony

g) Oligopsony

h) Bilateral Monopoly

I) Perfect Competition: Which market has equal buyers and sellers that market is called as perfect competition, though, hypothetically present, it a situation where the market is characterized by homogeneous products, large number of buyers and sellers with free entry or exit conditions and perfect information about products, etc.

Features of Perfect Competition :

Large number of buyers and sellers: An important feature of perfect competition is the existence of very large number of buyers and sellers in the market each buyer buys so little number goods and each seller sells a little number goods none of them is in a position to influence the price in the market.

Existence of Homogenous Product: Homogenous product means identical product available in the market so no seller can charge a price even slightly a above ruling the market price, because, it he does so, he will lose all his customers.

Free entry and exit: Any buyers and sellers is free to enter or leave the market of the commodity.

Perfect Knowledge: All buyers and sellers have perfect knowledge about the market for the commodity.

No existence of transport cost: Perfectly competitive market also assumes the non-existence of transport cost.

Indifference: No buyer has preference to buy from a particular seller and no seller to sell to a particular buyer.

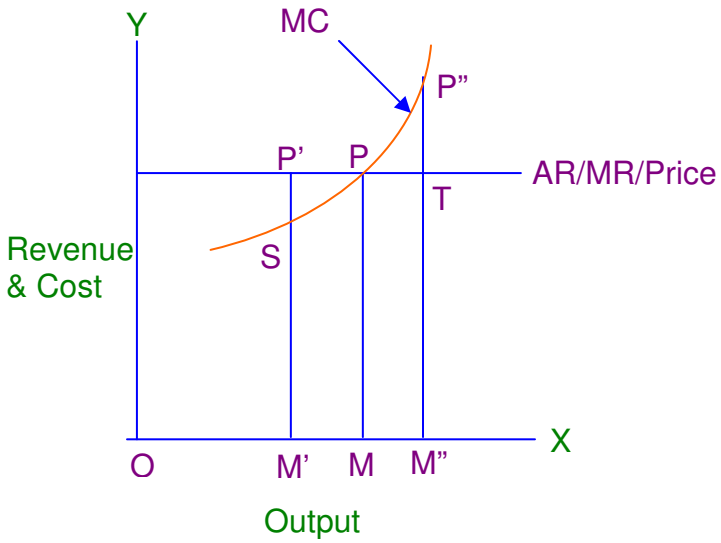
Conditions for attaining Equilibrium of a Firm and Industry under Perfect Competition:

Equilibrium is a position where the firm has no incentive either to expand its output. The firm is said to be in equilibrium when it earns maximum profit. There are two conditions for attaining equilibrium by a firm and industry.

1) Marginal cost must be equal to marginal revenue i.e., MC = MR

2) Marginal cost curve must cuts the marginal revenue curve from below

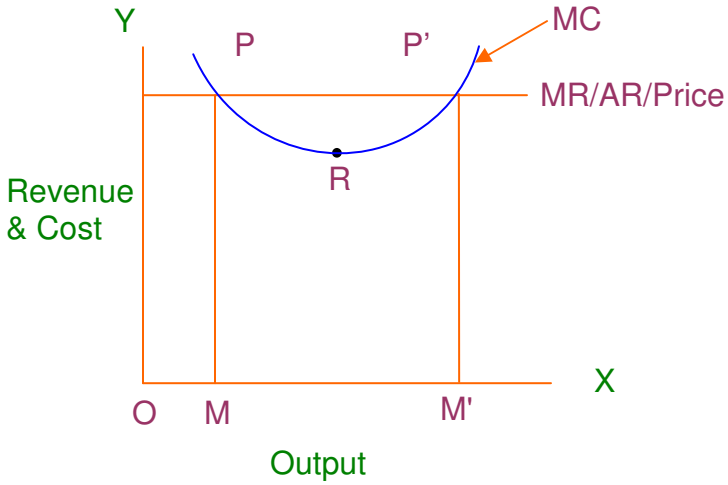
Marginal cost is the addition cost incurred by a firm for producing an additional unit of output. Marginal revenue is the additional revenue accrued to firm when it sells one additional unit of output.



The horizontal line represents average revenue, marginal revenue and price. The Marginal cost curve cuts the Marginal revenue curve from below at P. At OM output the marginal revenue (PM) and Marginal cost (PM) are equal. There fore Om output is the profit maximizing output. Any output beyond Om will not maximize profits of the firm. At OM" output for example P"M" is the marginal cost wile TM" is the marginal revenue obviously the marginal cost greater than the marginal revenue. If the firm produces OM" output it will suffer a loss indicated by the area PTP". The firm will not produce any quantity of output beyond OM output. At the same time any output less than OM will also not be the profit maximization output. If the firm produces OM' output it will not yield maximum profits. At OM' output the marginal revenue (P'M') is greater than the marginal cost (SM'). That means it is advantageous for the firm to produce beyond OM' output. The firm could increase its total profits by producing the additional output M'M. If the firm produces output M'M, it will be securing additional profits measured area P'PS. The firm will not stop at OM' output, since we have assumed that the firm earns maximum profits, it will produce OM output, because this is the only output at which it can maximize its profits. At this output, the marginal revenue is equal to the marginal cost. The firm is in equilibrium at the output OM.

The firm equilibrium more than one point, it is referred to as the case multiple equilibrium

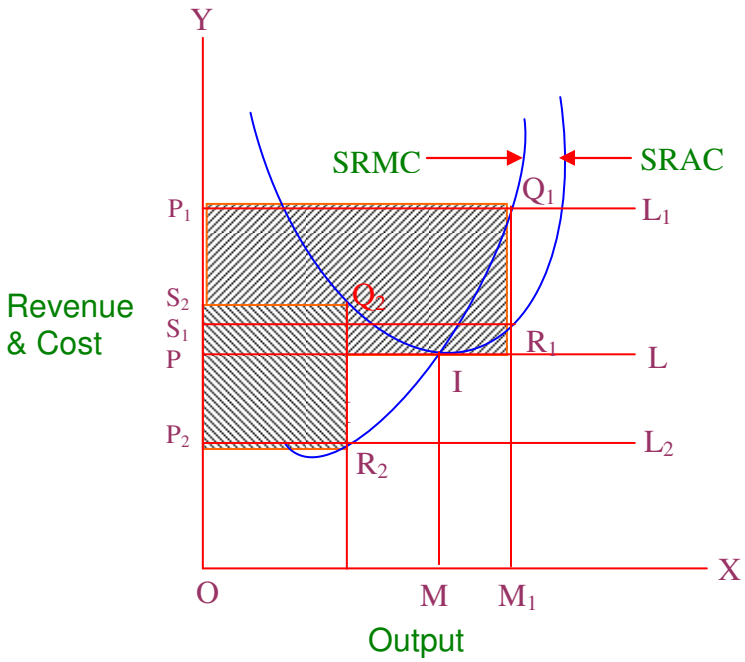
The MC curve has a peculiar shape, it slopes downwards up to R and then rise upwards. There are two points at which the firm is in equilibrium namely P,P'. At point P the firm MC equal to MR that is firm equilibrium point. But the equilibrium at a point P, shall not be stable equilibrium the reason being that at the point P the MC cure cuts the MR curve from above. As pointed out earlier, the second condition for the establishment of a stable equilibrium is MC curve must cuts the MR curve from below why is the equilibrium at P unstable.



The reason is that beyond the point P, the MC is lower than MR. So firm output increase to OM'. In other words, it will pay the firm to produce MM' additional output because by doing so, it can secure additional profits measured by the area PRP'. Then the firm earn more profits at a point OP' also, so the firm will stop its OM output, it will produce up to OM' output.

Short Period Equilibrium: In the short period, the firm attains equilibrium with abnormal profits or minimum losses, when average cost and marginal cost of the firm are less than the price, the firm earns abnormal profits.

In the figure, SRAC and SRMC are the short run average cost and marginal cost curves. PL is the initial price line. At point I the firm earns normal profits as its MC and MR and AC and AR equal to each other. When price increases to P_1L_1 the firm attains equilibrium at point Q_1R_1. The total profits are equal to the area $P_1Q_1R_1S_1$. When the firm earns abnormal profits, new firms try to enter the industry. Output increases and price line comes down to the original position. Similarly at point R_2 the average cost of the firm is more than the average revenue. The firm incurs loss per unit equaling to Q_2R_2. The total loss is equal to the area $P_2S_2Q_2R_2$. This will lead to exclusion of some firms from the industry, thus supply will come down and the industry again attains equilibrium.

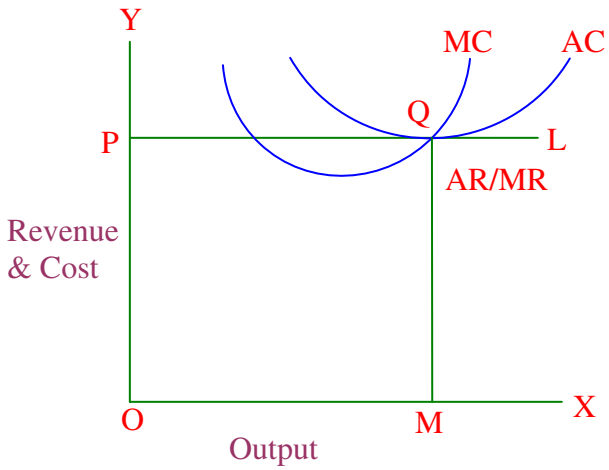


Long Period Equilibrium : In the long run, the firms attain equilibrium when long run AC & MC are equal to the long run AR and MR. The firms as well as industry in the long period enjoy normal profits.

The industry consists of various firms it will be in equilibrium when firms have no intention either to enter or to leave industry. This will happen when all the firms or producers are earning normal profits. Firms earn normal profits when price is equal to AC (AR = AC), It should be noted that cost of production includes normal profit.

The price may not be equal to average cost in the short run. But in the long run, the price will become equal to AC because the time is sufficient for new

firms to enter the industry or the old firm to leave the industry suppose, the price in the market is higher than the AC, existing firms will make super normal profits. Thus the industry will be in equilibrium when price (i.e average revenue) is equal to average cost (AC = AR). The firms will be in equilibrium when marginal cost is equal to marginal revenue (i.e price). That is MC=MR=AR. So an industry attains equilibrium if the following conditions are satisfied.



MC = MR = AR = AC

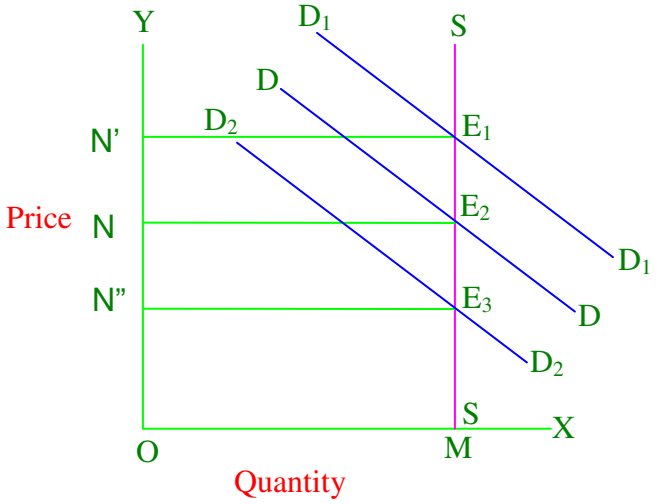
The horizontal line represents both the average revenue and marginal revenue. Marginal cost curve (MC) cuts the average cost curve (AC) at point Q. At this point marginal cost, average cost, marginal revenue and average revenue are the same. This is AR = AC = MA = MR. The firm is in equilibrium as marginal cost and marginal revenue are equal when output OM is produced. The firm will be producing output at the lowest average cost. Any firm producing output at minimum average cost is known as optimum firm. Therefore, under perfect competition all firms will be of optimum size. Besides, the industry will be in equilibrium as average cost is equal to average revenue i,e.,price

Price Output Determination Under Perfect Competition:

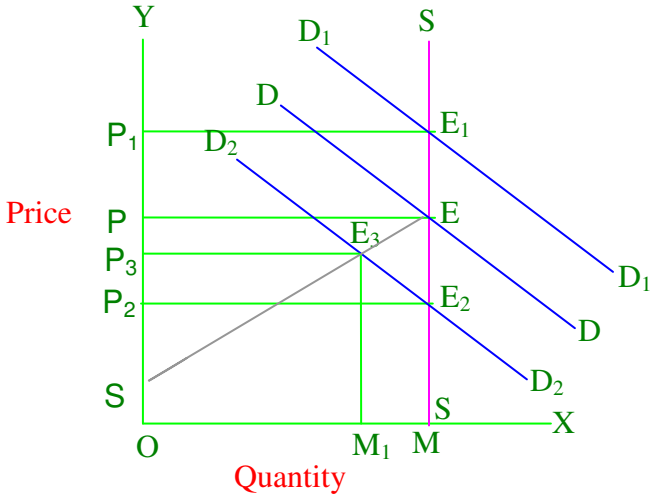
1) Market period: In this period, the time available to the firm to adjust the supply of the commodity to its changed demand is extremely short, say a single day or a very few days. The price determined in this period is known as Market price.

a) Perishable goods: The supply of perishable goods like fish, mil, vegetable etc. cannot be increased and it cannot be decreased also. As result the supply curve under market period will be parallel to y-axis or vertical to x-axis supply is perfectly inelastic.

OD is demand curve SS is supply curve supply is fixed market supply available in the market is OS. Let us suppose in the fish market the supply of fish in almost fixed on any particular day in the market the price is ON. Now let us suppose that the demand for fish increase on that day. Since supply of fish not increase immediately, its price will go up in the same way the demand decreased D_2 D_2 to the price also decrease up to ON"



b) Non – Perishable goods: In the very short period, the supply of non-perishable goods like cloth, pen watches etc., cannot be increased. But if price falls, their supply can be decreased by preserving some stock, if price falls too much the whole stock will be held back from the market and carrier over to the next market periods. The price below

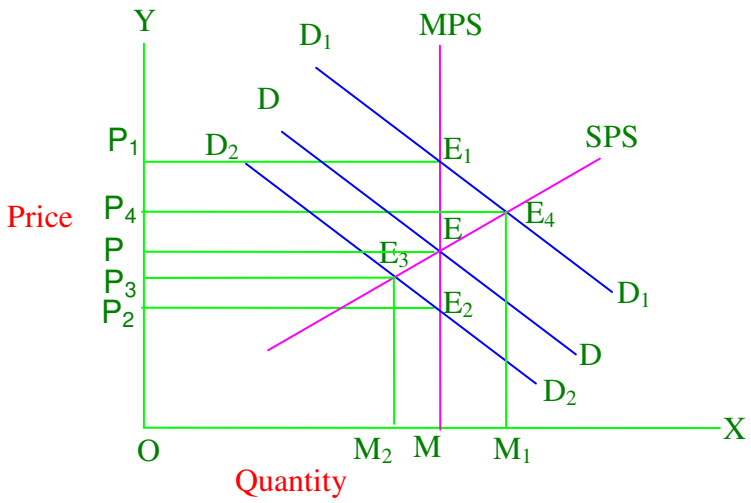


which the seller will refuse to sell is called reserve price.

In the given figure quantity is show on x-axis and price on y-axis. SES is the supply curve. It slope upward up to the point E. From E it becomes a vertical straight line, this because the quantity existing with sellers is OM. The maximum mount hey have is thus OM. Till OM quantity (i.e., point E), the supply curve slopes upward. At the point S, nothing is offered for sale. It means the sellers withhold the entire stock if the price is OS. Os is thus the reserve price. As the price rises, supply increases up to point E. At OP price (Point E), the entire stock offered for sale.

2) Short Period: Short period is a period in which supply can be increased by altering the variable factors. In this period fixed costs will remain constant. The supply is increased when price rises and vice versa. So the supply curve slopes upwards from left to right.

In the given diagram MPS is the market period supply curve. DD is the initial demand curve. It intersects MPS curve at E. The price is OP and output OM. Suppose demand increases, the demand curve shifts upwards and becomes DD. In the very short period, supply remains fixed at OM.



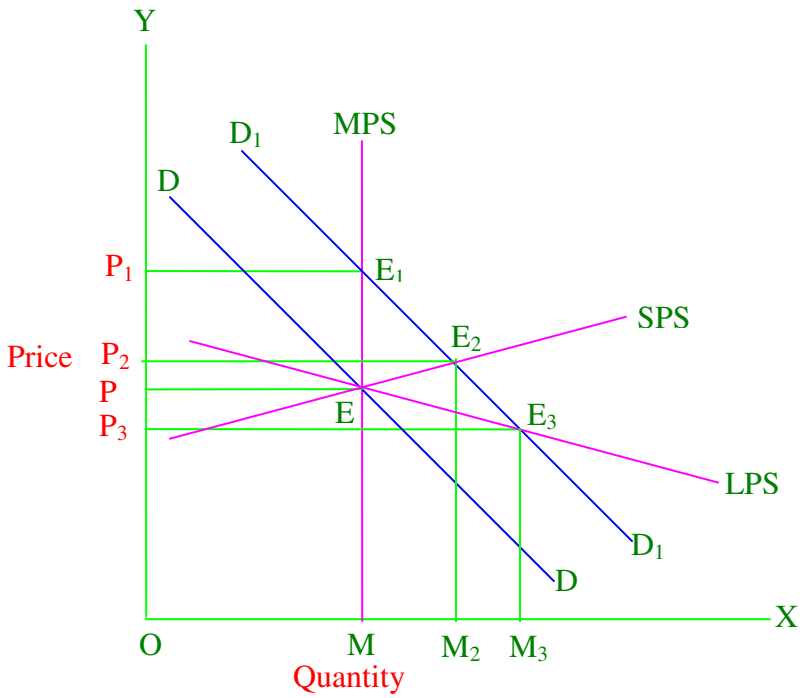
The new demand curve DD intersects MPS at E. The price will rise to OP. This is what happens in the very short-period. As the price rises from OP to OP_1, firms expand output. As firms can vary some factors but not all, the law of variable proportions operates. This results in new short-run supply curve SPS. It intersects D_1D_1 curve at E_4. The price will fall from OP_1 to OP_4. If the demand decreases, DD curve shifts downward and becomes D_2D_2. It intersects MPS curve at E_2. The price will fall to OP_2. This is what happens in market period. In

the short period, the supply curve is SPS. D_2D_2 curve intersects SPS curve at E_3. The equilibrium price becomes OP_3. The short period price is higher than the market period price.

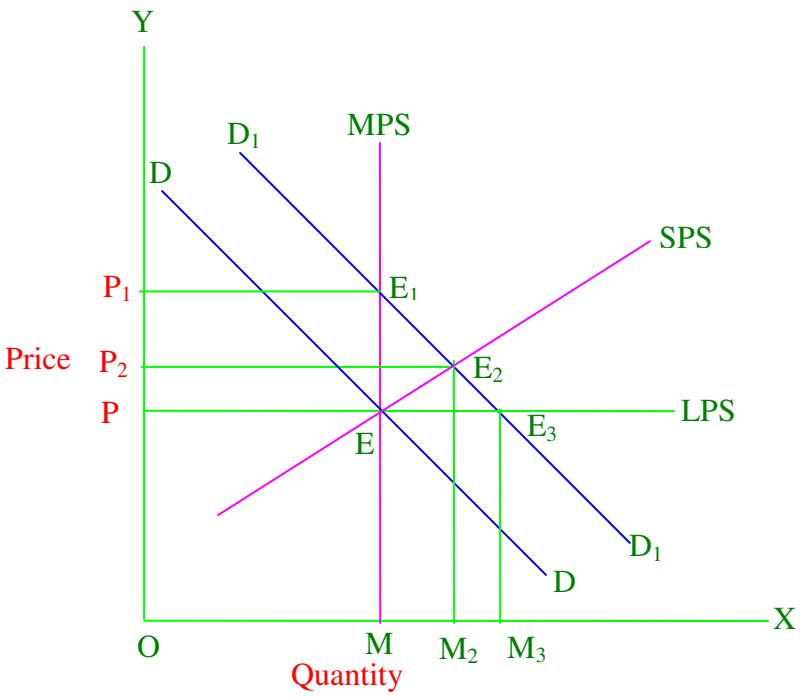
3) Long Period: Market price may fluctuate due to a sudden change either on the supply side or on demand side. A big arrival of milk may decrease the price of that production in the market period, similarly garments. This type of temporary change in supply and demand may cause changes in market price.

In the long period all costs are variable costs so supply will be increased only when price is equal to average cost. There are three stages of returns.

a) Increase Returns or Decreasing Costs: At this stage, average cost falls due to an increase in the output. So the supply curve at this stage will slope downwards from left to right. The long period normal price determination at this stage can be explained with the help of a diagram. In the diagram, MPS represents market period supply curve. DD is demand curve. DD cuts LPS, SPS and MPS at point E. At point E the supply is Om and the price is OP, if demand increases from DD to D_1D_1 market price increases to OP_1. In the short period it is OP_2. In the long period supply increases considerable to OM_3. So price has fallen to OP_3 which is less than the price of market period.

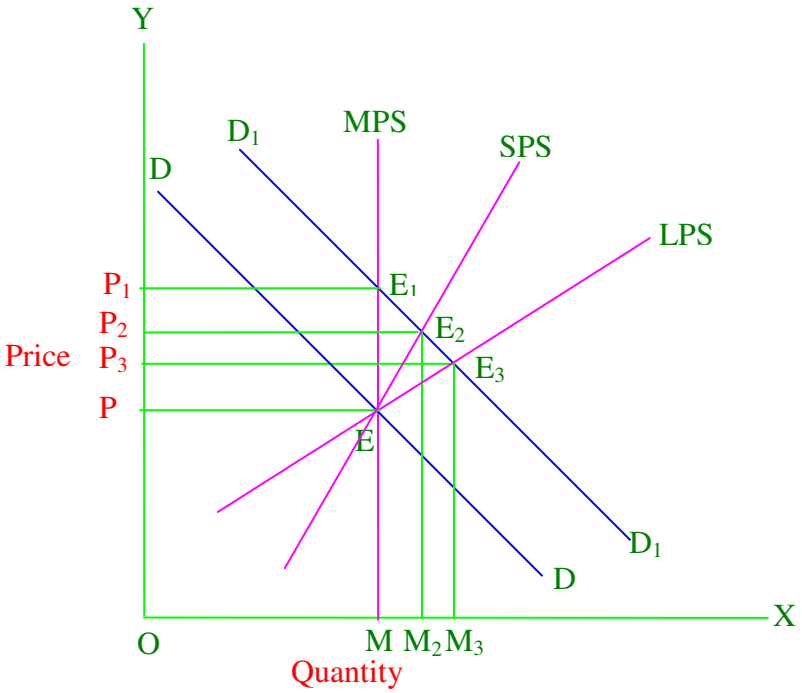


b) Constant Returns or Constant Costs: In this case average cost does not change even though the output increases. Hence long period supply curve is horizontal to x-axis. The determination of long period normal price can be explained with the help of the diagram. In this figure LPS is horizontal to x-axis. MPS represents market period supply curve, and SPS represents short period supply curve. At point 'E' the output is OM and price is OP, if demand increases from DD to D_1D_1 market price increases to OP_1. In the short period, supply increases and hence the price will be OP_2. In the long run supply is adjusted fully to meet increased demand. The price remains constant at OP because costs are constant at OP and market is a perfect market.



c) Diminishing Returns or Increasing Costs: If the industry is subject to increasing costs the supply curve slopes upwards from left to right like an ordinary supply curve. The determination of long period normal price in increasing cost industry can be explained with the help of the following diagram.

In this diagram, LPS represents long period supply curve. The industry is subject to diminishing returns or increasing costs. So,



LPS slopes upwards from left to right, SPS is short period supply curve and MPS is market period supply curve. DD is demand curve. It cuts all the supply curves at E. Here the price OP and output is OM. If demand increases from DD to D_1D_1, in the market period supply will not change but the price increases to OP_1. In the short period, price increase to OP_2 as the supply increase form OM to OM_2. In the long period supply increases to OM_3 and price increase to OP_3. But this increase in price is less than the price increase in a market period or short period.

4) Secular Period: In this period, a very long time is available to adjust the supply fully to change in demand. This is very long period consisting of a number of decades. As the period is very long it is difficult to lay down principles determining the price.

II) Imperfect Competition: A competition is said to be imperfect when it not perfect. In other words, when any or most of the above conditions do not exist in a given market, it is referred to as an imperfect market.

1) Monopoly: The word monopoly is made up of two syllables, mono and poly. Mono means single, while poly implies selling. Thus monopoly is a form of market organization in which there is only one seller of the commodity. There are no close substitutes for the commodity sold by the seller.

Features of Monopoly:

Single person or a firm: The total supply of the commodity is controlled by a single per or a firm. There will be no competition for monopoly firm. The monopolist firm is the only firm in the whole industry.

No close substitutes: The product sold by the monopolist shall not have closely competing substitute. Even if price of monopoly product increases people will not go in for substitute

Large Number of Buyers: Under monopoly, there may be a large number of buyers in the market who compete among themselves

Price Maker: Since the monopolist controls the whole supply of a commodity, he is a price-maker. He can alter the price.

Supply and price: The monopolist can fix either the supply or the price. He cannot fix both. If he charges a very high price, he can sell a small amount. If he wants to sell more, he has to charge a low price. He cannot sell as much as he wishes for any price he pleases.

Types of Monopoly:

Legal Monopoly: If monopoly arises on account of legal support or as a matter of legal privilege, it is called legal monopoly Ex: patent rights, trade mark

Government Monopoly: Sometimes the government will take the responsibility of supplying a commodity and avoid private interference. Ex: Water, Electricity.

Private Monopoly: If the total supply of a single private person produces a good or firm it called private monopoly. Ex: Hindustan lever Ltd.,

Limited Monopoly: If the monopolist is having limited power in fixing the price of his product, it called as limited monopoly. It may be due to the fear of distant substitutes or government intervention or the entry of rivals firms.

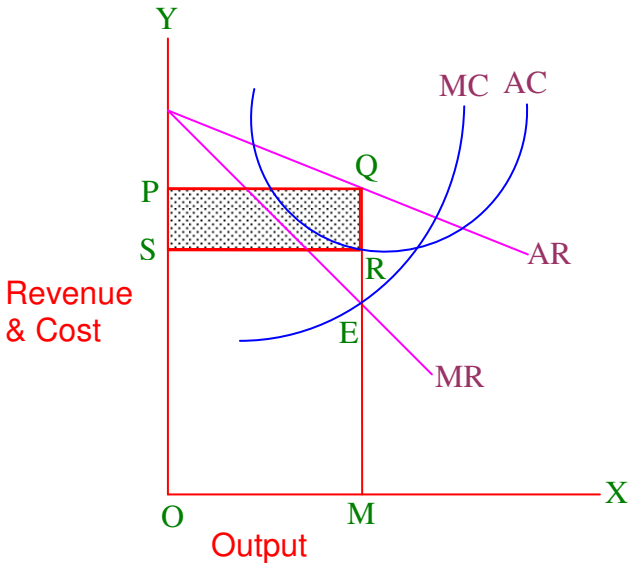
Unlimited Monopoly: If the monopolist is having unlimited power in fixing the price of his goods or services, it is called unlimited monopoly. Ex: A doctor in a village.

Single price Monopoly: When the monopolist charges same price for all units of his product, it is called single price monopoly. Ex: Tata company charges the same price to all the Tata Indica cars of the same product.

Discriminating Monopoly: When a monopolist charges different prices to different consumers for the same product, it is called discriminating monopoly.

Price output determination under Monopoly at equilibrium point:

The monopolist firm attains equilibrium when its marginal cost becomes equal to the marginal revenue. The monopolist always desires to make maximum profits. He makes maximum profits when MC = MR. He goes on increasing his output if his revenue exceeds his costs. But when the costs exceed the revenue, the monopolist firm incur losses. Hence, the monopolist curtails his production. He produces up to that point where additional cost is equal to the additional revenue (MR = MC). The point is called equilibrium point. The price output determination under monopoly may be explained with the help of a diagram.



In the diagram, the quantity supplied or demanded is shown along X-axis. The cost or revenue are shown along Y-axis. AC and MC are the average cost and marginal cost curves respectively. AR and MR curves slope downwards from left to right. AC and MC are U shaped curves. The monopolistic firm attains equilibrium when its marginal cost is equal to marginal revenue (MC = MR). Under monopoly, the MC curve may cut the MR curve from below or from a side. In the diagram, the above condition is satisfied at point E. At point E, MC=MR. The firm is in equilibrium. The equilibrium output is OM.

In the above diagram (Average revenue) = MQ or OP

Average cost = MR

Profit per unit = Average Revenue – Average Cost

= MQ – MR = QR

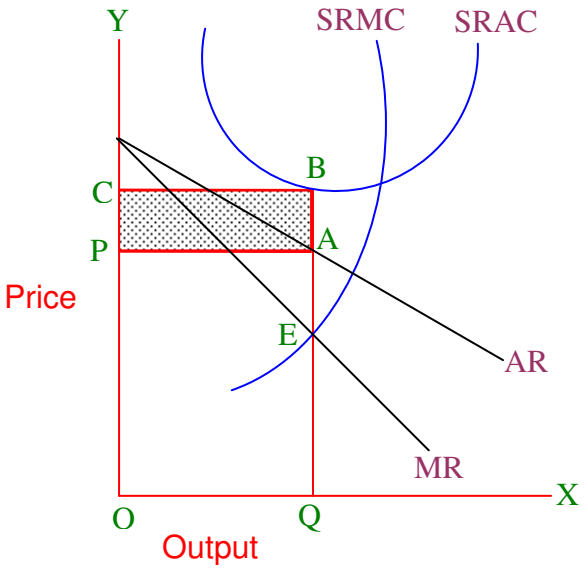
Total profit = Profit per unit x Quantity = QR x OM

= QR x SR = PQRS

The area PQRS represents the maximum profit earned by the monopoly firm.

But it is not always possible for a monopolist to earn super normal profits if he demand and cost situations are not favorable, the monopolist may realize short run losses.

Though the monopolist is a price maker, due to weak demand and high costs, he suffers a loss equal to PABC.



If AR > AC ⟶ Abnormal or super normal Profits

If AR = AC ⟶ Normal profits

If AR < AC ⟶ Loss

In the long run the firm has time to adjust his plant size or to use existing plant so as to maximize profits.

Discriminating Monopoly: So far we have proceeded on the assumption that the monopoly firm charges one single uniform price for all units of its product from all the customers. But sometimes the monopolist charges different prices from different customers for the same product at the same time when the monopoly firm resorts to this type of practices, it is called discriminating monopoly or price discriminations.

Method of Price Discrimination:

Quality of sales: The monopolist may charges different prices according to the different conditions of sales, say according to the quantity purchased. He may charge Rs.3/- for a tooth paste in the wholesale market and Rs.3.50 paisa for the same product in the retail market.

Customers Income level: A medical practitioner, for example, may charges Rs.50/- for the rich patients and Rs.30/- from poor patients.

Time of Sale: Based on time of sale the monopolist charges different prices from different customer for example, a doctor charges higher fees for visit at night and lower fees for his visits during daytime.

Transportation: The monopolist sells his product at the same price in all markets of the country despite difference in costs of transportation, it will be clear case of price discrimination.

Dumping: He may sells his product at higher price in the protected domestic market and same product at lower price in the foreign markets. The letter type of sale is called dumping in technical language.

Purpose of use: An electric supply company charges higher rates for domestic uses and lower rates for industrial uses of electricity.

Service: The Indian railway system charges higher fare per kilometer from short-distance passengers and a lower fare per kilometer from long-distance passengers.

2) Monopolistic Competition: In actual life it is almost impossible to discover a single which is exchanged under conditions of perfect competitions, and it is equally difficult to discover examples of pure monopoly. The large majority of markets in real life display the characteristics of both monopoly and perfect competition, in some, the monopoly situations, where neither pure monopoly nor prefect competition prevails, are referred to by the economists as imperfectly competitive markets.

In other wards, monopolistic competition is that market situation which lies between the two extremes of perfect competition and pure monopoly.

Characteristics of Monopolistic Competition:

Existence of Many firms: The first feature of monopolistic competition is that there should be a large number of firms in the market, with the largest firms accounting for a very small share of total output of industry. Ex: service industries like shoe-repairing shops, petrol situation.

Large number of buyers: There are a large number buyers in the market. But the buyers have their own brand preferences. So the sellers are able to exercise a certain degree of monopoly over them.

Product Differentiation: Product differentiation means that products are different in some ways, but not altogether so. The products are not identical but at the same time they will not be entirely different from each other. It really means that there are various monopolist firms competing with each other.

Free entry and exit of firms: As in the perfect competition, in the monopolistic competition too, there is freedom of entry and exit. That is, there is no barrier as found under monopoly.

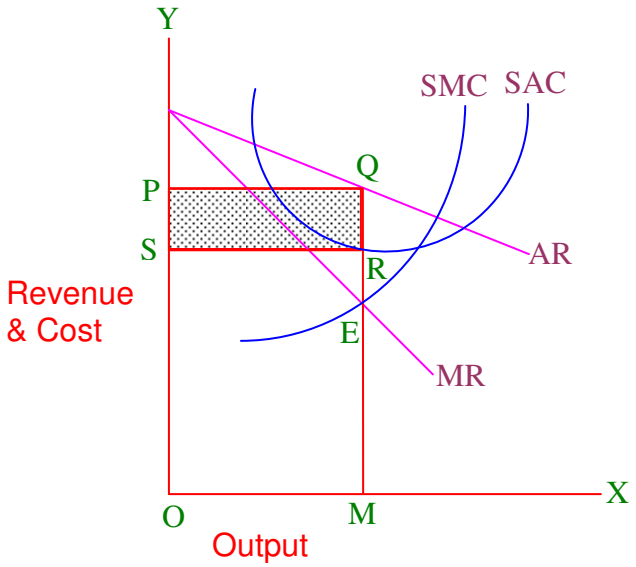
Selling costs: Since the products are close substitutes much effort in needed to relation the existing consumers and to create new demand so each firm has to spend a lot an selling cost.

The Group: Under perfect competition, the term industry refers to the collection of firms producing a homogeneous product. But under monopolistic competition the products of various firms are not identical though they are close substitutes.

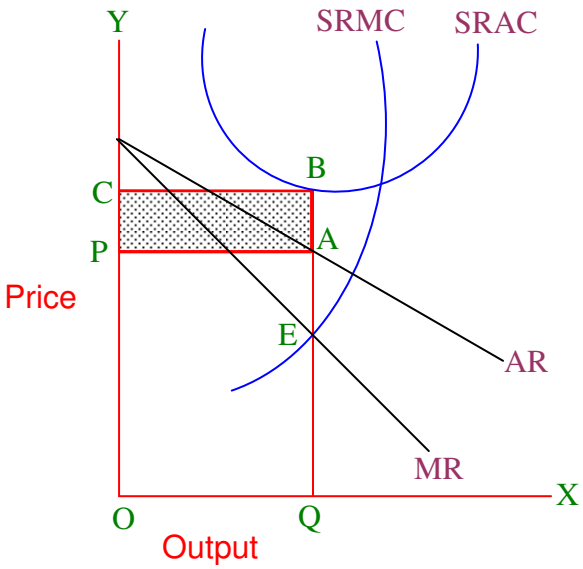
Price output determination under Monopolistic Competition at equilibrium point:

Short period equilibrium: Different firms produce different varieties of products different price for tem will be determined in the market depending upon the demand and cost conditions. Each firm will set the price and output of its own product. Here also the profit will be maximized when MR is equal to MC.

In short-run the firm is in equilibrium when MR = MC. AR is average revenue curve, MR marginal revenue curve, SMC short-run marginal cost curve, SAC short-run marginal cost curve, MR and SMC intersect at point E where output is OM and Price MQ (i.e., OP). Thus the equilibrium output or the maximum profit output is OM and price MQ or Op. When the price is above AC a firm will be making supernormal profit. From the figure it can be seen that AR is above AC in the equilibrium point. As AR is above AC, this firm is making abnormal profits in the short-run. The abnormal profit per unit is QR, i.e., the difference between AR and AC at equilibrium point and the total supernormal profit is QR x OM. This total abnormal profit is represented by the rectangle PQRS.

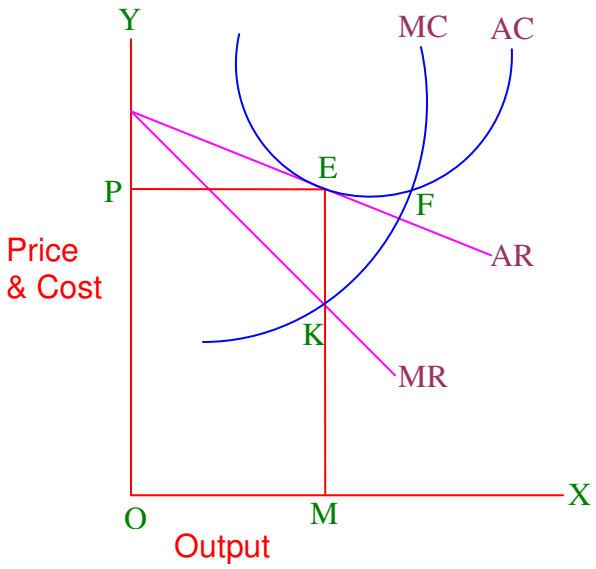


If the demand and cost conditions are less favorable, the monopolistically competitive firm may incur loss in the short-run. A firm incurs loss when the price is less than the average cost of production. MQ is the AC and OS (i.e.,MR) is the price per unit at equilibrium output OM. QR is the loss per unit. The total loss at an output OM is QR x OM. The rectangle PQRS represents the total loss area in the short run.



Long Period Equilibrium:

A monopolistically competitive firm will be equilibrium in long-run at the output level where marginal cost is equal to marginal revenue. Monopolistically competitive firm in long run earns only normal profits and will not incur any loss, the firm in the long-run attains equilibrium where MC = MR and AC = AR.



3) Oligopoly: The term oligopoly is derived from two Greek words, oligos meaning a few, and pollen meaning to sell. Oligopoly is that form of imperfect competition where there are a few firms in the market, either producing an homogeneous product or producing products which are close but not perfect substitutes of each other.

Characteristics of Oligopoly:

Few Firms: There are only a few firms in the industry. Each firm contributes a sizeable share of the total market. Any decision taken by one firm influences the actions of other firms in the industry. The various firms in the industry compete with each other.

Interdependence : As there are only very few firms, any steps taken by one firm to increase sales, by reducing price or by changing product design or by increasing advertisement expenditure will naturally affect the sales of other firms in the industry.

Indeterminate Demand Curve: The interdependence of the firms make their demand cure indeterminate. When one firm reduces price other firms also will make a cut in their prices. So the firm cannot be certain about the demand for its product.

Advertising and Selling Costs: Advertising plays a greater role in the oligopoly market when compared to other market systems. It is only under oligopoly that advertising comes fully into its own. A huge expenditure on advertising and sales promotion techniques is needed both to retain the present market share and to increase it.

Price Rigidity: In the oligopoly market price remains rigid. If one firm reduces price it is with the intention of attracting the customers of other firms in the industry. In order to retain their consumers they will also reduce price. Thus the pricing decision of one fir results in a loss to all the firms in the industry.

4) Duopoly: Duopoly refers to a market situation in which there are two sellers. As there are only two sellers any decision taken by one seller will have reaction from the other. Ex: Coco Cola and Pepsi usually there two sellers may agree to co-operate each other and share the market equally between themselves, so that they can avoid harmful competition.

5) Monopsony: Monopsony is a single buyer or a purchasing agency, which buys the whole, or nearly whole of a commodity or service produced, it may be created when all consumers of a commodity are organized together and/or when only one consumer requires that commodity which no one else requires.

6) Duopsony : If there are two buyers, duopsony is said to exist.

7) Oligopsony: Oligopsony is a market situation in which there will be a few buyers and many sellers. As the sellers are more and buyers are few the price of product will be comparatively low but not so low as under monopoly.

8) Bilateral Monopoly: A bilateral monopoly is a market situation in which a single seller (Monopoly) faces a single buyer (Monopsony). It is market called bilateral monopoly.

Pricing Methods:

1) Cost based pricing: The cost of product of the commodity decides the price of the product.

a) Full Cost Pricing: When the price equal to the average cost, that price is called full cost pricing.

b) Cost Plus Pricing: Some mark-up added to average cost that is called cost plus pricing

c) Marginal Cost Pricing: Which price is equal to marginal cost that pricing is called marginal cost pricing

2) Competitive Based Pricing: Some commodities are priced according to the competition in their market.

a) Going rate Pricing: This price could be below or above the average cost and it could even be an economic price **Ex**: If the Maruthi Car was first manufacture in India, it must have taken into amount the prices of existing cars.

b) Sealed Bid Pricing: If the buyer asked companies to quote their price in sealed cover, all the offers are opened at a pre announced time in the presence of all the competitors, and the who quoted the least is awarded the contract.

3) Demand Pricing : Based on the demand of the product in the market to be consider to decided the price of the product.

a) Perceived Value Pricing : Perceived value pricing considers the buyers perception of the value of the product as the basis of pricing. Here the pricing rule is that the firm must develop procedure for measuring the relative value of the product as perceived by consumers.

b) Differential Pricing : The selling price of the product is different prices in different market segments. It is depends on geographical location of the consumers, type of consumer, purchasing quantity, season, time of the service.

Ex: Telephone charges, APSRTC charges.

4) Strategy Based Pricing : Based on the strategy of the company to be consider to decided the price of product called strategy based pricing.

a) Skimming Pricing : Under this strategy, the new product of the price is high in the beginning and its price is reduced gradually as it faces a dearth of buyers.

Such a strategy may be beneficial for products, which are fancy, but of poor quality and/or of insignificant use over a period of time.

b) Penetration Price : Under this strategy the price of the product initial low price in the beginning in order to catch the attention of consumers, once the product image and credibility is established, the seller slowly starts to increase the price to earn good profits in future under this price the price of the product is below the production cost, initial the firm runs into losses to start with but eventually it recovers all its losses and even make good over all profits, **Ex**: Rin Soap

5) Two – Part Pricing: Under this strategy a firm charges a fixed fee for the right to purchase its goods, plus a per unit charge for each unit purchased

Fixed fee generally equals the consumer surplus each consumer received at this per unit price. The charge per visit or on monthly basis equals the marginal cost. **Ex:** Country Clubs, Health Club

6) Block Pricing : Block pricing is another way a firm with market power can enhance its profits we see block pricing in our day-to-day very frequently

Ex: Six Lux Soaps in a single pack.

7) Commodity Bundling: It is refers to the practice of bundling two or more different products together and selling tem at a single bundle price.

Ex : The package deals offered by the tourist companies.

8) Peak Load Pricing: During seasonal period when demand is likely to be higher, a firm may enhance profits by peak load pricing. The firm's philosophy is to charge a higher price during peak times, than is charged low during off-peak time. **Ex**: Jet Air charge high price in festival seasons.

9) Cross Subsidization: In cases where demand for two product produced by a firm is interrelated through demand or costs the firm may enhance the profitability of its operations through. Cross subsidization using the profits generated by established products, a firm may expand its activities by financing new product developments into new product market.

Ex: Computer companies selling both software and hardware may find economies, relating to volume and cost, in selling the two products jointly

10) Transfer Pricing: Transfer pricing is an internal pricing technique. It refers to a price at which inputs of one department are transferred to another, in order to maximize the overall profits of the company.

Ex: The engine department of kinetic Honda makes the Scooter engines and forwards these to the assembly department.