Economics Workshop

Topic 9: Pricing strategies

1. Explain why a business will find it difficult to set prices following the $MC = MR$ rule of traditional economic theory.

2. Could an existing firm implement a policy of limit pricing if it had the same cost schedule as potential new entrants?

3. What would be the reason a monopoly or oligopolists operate at a lower average cost and how could they do it without ruining their business?

4. Outline the main factors that might influence the size of the profit mark-up set by a business.

5. A salesperson often asks a customer the following question 'how much are you thinking of spending?' Why might the salesperson ask this question? Is it in the interests of the customer to tell him/her the truth?

6. There are websites that collect together information on the various discounts that are available at any given point in time. Some of them make statements like 'Our staff spend several hours every day scouring the internet for great deals so that you don't have to.' Discuss the implications of these websites for retailers who want to use coupons as a means of implementing a policy of second-degree price discrimination.

7. If a cinema could sell all its seats to adults in the evenings at the end of the week, but only a few on Mondays and Tuesdays, what price discrimination policy would you recommend to the cinema in order for it to maximise its weekly revenue?

8. What is pricing strategy?
   a. A method to promote products through discounts
   b. A way to determine the production cost of goods
   c. An approach to set the prices of products or services
   d. A strategy to allocate budgets for marketing campaigns

9. Limit pricing is used primarily to:
   a. reduce (limit) the profits of all of the firms in the industry.
   b. discourage new firms from entering a market.
   c. drive other firms out of a market.
   d. establish a minimum price all of the firms in the market will charge.

10. Which pricing strategy sets prices based on production costs and desired profit margins?
   a. Peak-load Pricing
   b. Inter-temporal Pricing
   c. Cost-Based Pricing
   d. Two-part tariff

11. Which pricing strategy sets prices based on the demand?
    a. Peak-load Pricing
    b. Inter-temporal Pricing
    c. Cost-Based Pricing
    d. Two-part tariff

12. Which pricing strategy initially charges a fixed fee, then separate charge for usage?
    a. Peak-load Pricing
    b. Inter-temporal Pricing
    c. Cost-Based Pricing
    d. Two-part tariff