SES'S L.S.RAHEJA COLLEGE OF ARTS AND COMMERCE

Course: Business Economics II Unit: III Prepared by: Rahul Dandekar

Important Concepts

1) Price discrimination

Price discrimination refers to the act of selling the same article, produced under single control at different prices to different buyers. Price discrimination generally takes place in case of monopoly. Following are the types of price discrimination.

Personal price discrimination- In this type different prices are charged to different buyers for the same product or service. Example: Doctors, Lawyers, Tuition Teachers etc. Charges high fees for rich and low fees for poor. It is similar to first degree price discrimination.

Group Price Discrimination – Here entire population or area is divided into different groups and different prices are charged for different groups of people.

Example: Railways charges lower ticket to children and senior citizens and more for others. Industrial areas are charged more electricity charges as compared to residential areas. This is same as second degree price discrimination.

Market Price Discrimination – This means charging different prices for the same product in different markets.

2) Dumping

Dumping is a term used in the context of international trade. It's when a country or company exports a product at a price that is lower in the foreign importing market than the price in the exporter's domestic market. Because dumping typically involves substantial export volumes of a product, it often endangers the financial viability of the product's manufacturers or producers in the importing nation.

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3) Marginal cost pricing

According to marginal cost pricing method price is determined on the basis of the marginal cost of production. Marginal cost is the cost of producing on additional unit of output. Here the price is charged on the basis of cost of additional unit of output which the firm produces. The price is determined in such a way that it must cover the marginal cost.

4) Cost plus pricing

Cost-plus pricing is also called as full cost pricing or mark-up pricing. Two famous economist of Oxford University Hall and Hitch developed this concept of pricing. This is the most commonly adopted method of pricing. It is used by a company or firm to determine the selling price of their product. Cost-plus pricing is a very simple method for setting the prices of goods and services. According to this method Price of a commodity is determined by taking into consideration Average Fixed Cost (AFC), Average Variable Cost (AVC) and Normal Profit Margin (NPM) or markup percentage. This markup percentage is nothing but profit. In other words Price is determined by adding a fixed mark-up to the cost of producing the product. This method is generally used by manufacturing firms. It is often by Government. Thus, it is imperative to have an accurate information of average costs.

P = AFC + AVC + NPM

5) Multiple product pricing

Most of the companies today produce more than one product and sell them in more than one markets. They produce variety of products instead of specializing in one product. They do this in order to make optimum utilization of their production capacities. The goods sold by them may be substitutes or complementary goods. An automobile firm like Maruti Suzuki produces wide range of cars. So each product will have an independent demand cure and hence a separate price. Pricing of variety of goods produced by a single firm is called multiple product pricing. It is also known as multi-product pricing or

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product line. In this type of pricing firms needs to be very vigilant about the repercussions of prices of one product on another.

6) **Transfer pricing**

Transfer prices are internal prices at which intermediate goods from upstream divisions are sold to downstream divisions. Upstream divisions are those which are producing intermediate product & downstream divisions are those that are producing finished product.

Important Questions

1) Discuss the concept of full cost pricing with advantages and disadvantages.

2) Explain marginal cost pricing method in detail.

3) Write short note on multiple product pricing.

4) Suppose the firm has capacity to produce 5000 units. It uses 80% of its capacity and is considered as the standard output. The total variable cost incurred is ₹ 16000 and the overhead cost is ₹ 8000. The mark up decided by the firm is 50%. Estimate the price per unit with the help of mark-up pricing.

5) A firm produces 100 units of commodity X at the total fixed cost of ₹ 2000 & total variable cost of ₹ 3000. Find the price which the firm would charge to its customers if it wants to make profit margin of 25% on cost. The firm uses cost plus pricing method.

6) If total cost of producing a commodity A is ₹ 5000 and mark-up fixed by the firm is ₹ 2000. Total Output to be sold is ₹ 700 units. Calculate the price per unit.

7) If the cost of product is ₹ 1500 per unit and the market expects 30% profit on costs. Calculate selling price.

8) XYZ International expects to incur the following costs in its business in the upcoming year.
Total production cost = ₹ 300000
Total Sales and administration cost = ₹ 200000
Company wants to make profit of ₹ 300000
And XYZ expects to sell 4000 units of its product.
On the basis of above information, calculate full cost price.

9) Explain the concept of Price Discrimination.

10) Discuss condition required for Price Discrimination.

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11) Explain equilibrium of price discriminating monopolist.

12) Write short note on Dumping.

13) Write short note on transfer pricing.

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