

## PRICE

## Task 5: Vocabulary quiz – Pricing strategies

Identify the key terms from the clues given. *Hint:* the answers are in alphabetical order.

Key term	Definition
	Setting a high price initially and only gradually reducing prices as competitors enter the market.
	Setting prices to make them seem (at least slightly) lower, such as \$9.95 rather than \$10.00.
	Pricing strategy used by firms with the largest market share in an industry, with other smaller firms following the price set by the market leaders.
	Charging different prices to different market segments for essentially the same product, such as peak and off-peak transportation or child and adult fares.
	Charging a very low price, perhaps below costs, to harm the sales of competitors.
	Setting a very low price to gain access into a market.
	Setting the price of a product below its costs of production to entice customers to buy other products with high profit margins.
	Adding a fixed amount or percentage to costs of production to determine the selling price.

## Task 6: True or false?

		True/False
a.	Price skimming tends to be used for fast moving consumer goods (FMCGs).	
b.	In theory, if the consumer can buy direct from the manufacturer then the price of the product would be lower.	
c.	The price decision will influence the customer's perception of a product's quality.	
d.	The percentage or a specified amount added to the costs of production is called the profit margin.	
e.	Any pricing strategy can only be successful if it is supported by other elements of the marketing mix.	
f.	Psychological pricing can work for almost any product, such as groceries sold in a supermarket, motor vehicles and residential property.	
g.	All firms can use price discrimination as a pricing strategy.	
h.	Whichever pricing strategy is used, a business must cover its costs of production in the long run.	
i.	Price skimming is often used by businesses entering new markets.	
j.	Predatory pricing involves temporarily setting prices so low that rival firms cannot compete profitably.	

## Task 7: Multiple choice – Price

1. The mark-up on a product is also known as
  - A. Cost-plus pricing
  - B. Profit margin
  - C. Loss leader
  - D. Average sales revenue

Questions 2–4 relate to the information given in the table.

Cost of raw materials for A2 Bakery in June

Flour	\$10 600
Whipped cream	\$12 000
Fresh fruits	\$25 000
Output	11 900 units

2. Given the limited information, what is the break-even price?
  - A. \$3
  - B. \$4
  - C. \$5
  - D. \$6
  
3. Which of the following prices is not an example of cost-plus pricing for A2 Bakery?
  - A. \$3.95
  - B. \$4.00
  - C. \$4.50
  - D. \$4.95
  
4. If the price is set at \$6 per unit, then A2 Bakery's mark-up per unit would be
  - A. \$4
  - B. \$6
  - C. 50%
  - D. 100%
  
5. Which statement cannot be applied to penetration pricing?
  - A. Used when there are existing rivals
  - B. Aims to establish higher market share
  - C. Involves setting a relatively low price
  - D. Prices are set according to the average price level

6. Which short-term pricing strategy can be used by a firm that is potentially threatened by the entry of a new supplier?
  - A. Price skimming
  - B. Price discrimination
  - C. Predatory pricing
  - D. Penetration pricing
  
7. One purpose of using price skimming is to
  - A. Maximise short-term profit margins
  - B. Maximise long-term sales revenue
  - C. Prevent other firms from entering the market
  - D. Enter a new market
  
8. When might a business be most likely to use price skimming?
  - A. When it is the market leader in the industry
  - B. In order to establish greater market share
  - C. To eliminate smaller rivals from the market
  - D. To introduce an original and unique product
  
9. The pricing strategy that involves a firm setting prices so low that smaller competitors are forced out of the market is known as
  - A. Market penetration
  - B. Market development
  - C. Predatory pricing
  - D. Price leadership
  
10. Supermarkets and other retailers often sell their own branded products at a price below their costs in order to entice sales of other more profitable products. This strategy is known as
  - A. Price leadership
  - B. Loss leader pricing
  - C. Skimming price
  - D. Cost-plus pricing
  
11. When the same product, usually a service, is sold in different markets at different prices, this is known as
  - A. Penetration pricing
  - B. Price skimming
  - C. Price discrimination
  - D. Price leadership

12. What pricing strategy occurs when a firm charges different prices to different groups of customers for essentially the same product?
- A. Price discrimination
  - B. Mark-up pricing
  - C. Penetration pricing
  - D. Price leadership
13. Which of the following prices is the best example of psychological pricing?
- A. \$9.95
  - B. \$8.50
  - C. \$1.00
  - D. \$0.25
14. Which of the following is psychological pricing most likely to be suitable for?
- A. Taxi drivers
  - B. Airline operators
  - C. Bus operators
  - D. Foreign exchange dealers
15. Price wars are associated with which pricing strategy?
- A. Penetration pricing
  - B. Price discrimination
  - C. Predatory pricing
  - D. Psychological pricing