

**CHAPTER
13**

Price

Part 1: Content Review

Matching

Write the letter for the correct term for each definition on the line provided.

- _____ 1. Point at which revenue from sales equals the costs.
- _____ 2. Value of everything the company owns.
- _____ 3. Pricing strategy based primarily on what the competitors charge.
- _____ 4. Goals defined in the business and marketing plans for the overall pricing policies of the company.
- _____ 5. Doubling the total cost of a product to determine its base price.
- _____ 6. Lowering the list price based on the higher number of units purchased at the same time.
- _____ 7. Amount that is left after all company expenses are subtracted from total revenue.
- _____ 8. States that consuming more units of the same product decreases the marginal utility from each unit.
- _____ 9. A set amount that must be paid on a regular basis, such as monthly or annually.
- _____ 10. Product demand that is not affected by price.

Terms

- A. break-even point
- B. competition-based pricing
- C. fixed expense
- D. inelastic demand
- E. keystone pricing
- F. law of diminishing marginal utility
- G. net profit
- H. pricing objectives
- I. total assets
- J. volume pricing

Completion

Fill in the blanks with the term that best completes each sentence.

Terms

- | | | |
|----------------------|------------------|----------------------------|
| base price | gross profit | markup |
| cost-based pricing | marginal utility | return on investment (ROI) |
| demand-based pricing | market share | variable expense |
| elastic demand | | |

- 1. A common measure of profitability based on the amount earned from the investment made in the business is _____.
- 2. _____ is added to the cost of a product to determine the base price.
- 3. A pricing strategy that uses the cost of the product to set the selling price is _____.

4. The _____ is the general price at which the company expects to sell the product.
5. A pricing strategy based on what customers are willing to pay is _____.
6. The percentage of total sales in a market held by one business is its _____.
7. _____ is the additional satisfaction gained by using one additional unit of the same product.
8. An amount that changes in both the cost and the amount of time it must be paid is a(n) _____.
9. Product demand in which the percent of change in demand is greater than the percent of change in price is _____.
10. _____ is the amount of profit before subtracting the costs of doing business.

True or False

Decide whether each statement is true or false. If the statement is true, write *True* on the line provided. If the statement is false, write *False* and rewrite the statement to make it true.

1. Not every business faces the challenge of correctly setting the prices of goods and services.

2. The decisions marketers make about a marketing mix do not influence each other.

3. Pricing objectives often change and are revised regularly.

4. A business charges the highest price customers will pay before that price exceeds the value for customers.

5. Any revenue made from sales before the break-even point is profit.

6. The law of supply and demand is not tied directly to price.

7. Demand-based pricing is a long-term pricing strategy.

Name _____

8. There will come a point at which no matter how low the price, consumers will not buy any more of a product.

9. Some products have both elastic and inelastic demand.

10. The stage in the product life cycle does not affect the pricing of a product.

Part 2: Concept Review

Pricing Objectives

Write your response to each of the following statements or questions in the space provided. Use complete sentences.

1. Why do you think a company's pricing objectives change regularly?

2. Explain how "maximize sales" and "maximize profit" are two different pricing objectives.

3. How does volume pricing help a business maximize its sales?

4. Explain why return on investment (ROI) is important for maximizing a company's profit.

5. How might knowing a product’s break-even point help a company maximize profit?

Effect of Demand on Price

Section A

Write your response to each of the following statements or questions in the space provided. Use complete sentences.

1. “The right price is the price that the customer will pay.” Explain what this statement means in terms of the prices of goods in the marketplace.

2. Some products sell for more than they appear to be worth. Explain why this might be true, and provide an example of a product.

3. Describe a time when you purchased a product for more than you thought it was worth. Why did you decide to make the purchase?

4. Some products sell for less than they appear to be worth. Explain why this might be true, and provide an example of a product.

Name _____

- 5. Describe a time when you purchased a product for less than you thought it was worth. Why did you decide to make the purchase?

Section B

Read the narrative that follows. Then, using complete sentences, answer the questions that follow.

Today, Kateri found out her car insurance increased in price. In addition, her rent is going to increase at the end of the month due to the higher cost of heating. She also needs stronger contact lenses, but her health insurance does not cover vision care. It is time for Kateri to rework her budget. Following is a list of items on which Kateri spends money.

- | | | |
|-------------------------------------|--------------------------------|-------------------------|
| annual dental exam | gas for car | new tires for car |
| car insurance | health insurance | postage |
| cell phone plan with unlimited data | individual juice boxes | premium-brand ice cream |
| fresh fruits and vegetables | lunch at restaurants | salon manicure |
| full-price clothing | monthly health-club membership | vacation cruise |

- 1. Identify the items for which Kateri’s demand is *elastic*. These are items that Kateri might be able to live without.

- 2. For each item you listed in question 1, identify a less expensive substitute.

- 3. Identify the items Kateri must purchase regardless of their cost.

4. What can a consumer do when the price of a necessary item increases?

5. How do price increases affect the sales of products with elastic demand?

Part 3: Marketing Math

Break-Even Point

The *break-even point* is the point at which the revenue from sales equals cost of selling the products. At this point, the company is not losing or making money; it is breaking even. Once the break-even point is reached, any additional revenue is profit. The number of items that must be sold to break even can be calculated. The break-even formula for a retail situation follows.

$$\frac{\text{cost per unit} \times \text{number of units purchased}}{\text{selling price}} = \text{break-even point}$$

Using this equation, complete the following table by calculating the cost of all units and the break-even point for each.

Break-Even Point				
Cost per Unit (\$)	Number of Units Purchased	Cost of All Units (\$)	Selling Price (\$)	Break-Even Point (Number of Units Must Be Sold)
7.25	200		14.50	
12.00	250		20.00	
22.50	150		25.00	
15.00	225		25.00	
22.50	150		45.00	
2.25	1,000		5.00	
6.80	500		10.00	
7.23	1,000		10.00	
12.96	1,500		20.00	
6.62	2,000		10.00	
144.50	400		200.00	

Name _____

Break-Even Point				
Cost per Unit (\$)	Number of Units Purchased	Cost of All Units (\$)	Selling Price (\$)	Break-Even Point (Number of Units Must Be Sold)
89.40	500		150.00	
62.50	150		75.00	
108.00	50		150.00	
450.00	50		900.00	
164.00	100		200.00	
56.50	150		75.00	
147.00	100		175.00	
80.00	30		200.00	
27.80	550		43.50	

Part 4: Be Your Own Leader

Leadership Qualities

Section A

Review the leadership qualities provided in the list that follows. Write your own definition of the quality in the space provided. Then, place an X on the line that best describes your mastery of this quality. Once you have finished these terms, choose three additional qualities and rank your mastery of these qualities as well.

1. Motivation:

Definitely excel

Pretty good

Need to focus

Need help

2. Attitude:

Definitely excel

Pretty good

Need to focus

Need help

3. Communication:

Definitely excel	Pretty good	Need to focus	Need help
------------------	-------------	---------------	-----------

4. Creativity:

Definitely excel	Pretty good	Need to focus	Need help
------------------	-------------	---------------	-----------

5. Integrity:

Definitely excel	Pretty good	Need to focus	Need help
------------------	-------------	---------------	-----------

6. Tact:

Definitely excel	Pretty good	Need to focus	Need help
------------------	-------------	---------------	-----------

7. Courage:

Definitely excel	Pretty good	Need to focus	Need help
------------------	-------------	---------------	-----------

Name _____

8. Dependability:

Definitely excel	Pretty good	Need to focus	Need help
------------------	-------------	---------------	-----------

9. Accountability:

Definitely excel	Pretty good	Need to focus	Need help
------------------	-------------	---------------	-----------

10. Problem solving:

Definitely excel	Pretty good	Need to focus	Need help
------------------	-------------	---------------	-----------

Section B

Refer to the leadership qualities for which you marked *Pretty good*, *Need to focus*, or *Need help*. In the space provided, name the leadership quality, state your current ranking, and describe your plan for improvement. Set a goal for when your plan will be accomplished. If you need additional space, continue the table on a separate sheet of paper.

1. A. Quality to improve: _____

B. My ranking: _____

C. Plan for improvement and goal: _____

2. A. Quality to improve: _____
B. My ranking: _____
C. Plan for improvement and goal: _____

3. A. Quality to improve: _____
B. My ranking: _____
C. Plan for improvement and goal: _____

4. A. Quality to improve: _____
B. My ranking: _____
C. Plan for improvement and goal: _____

5. A. Quality to improve: _____
B. My ranking: _____
C. Plan for improvement and goal: _____

