

Chapter 11

Pricing Considerations and Approaches

Multiple Choice

1. The price of an executive is a _____, the price of a salesperson is a _____, and the price of a worker is a _____.
 - a. commission; wage; salary
 - b. wage; commission; salary
 - c. salary; wage; commission
 - d. salary; commission; wage(d; Easy, p. 345)
2. _____ is the amount of money charged for a product or service.
 - a. Experience curve
 - b. Demand curve
 - c. Price
 - d. Wage(c; Easy; p. 345)
3. Little Roses' Floral Design sells flowers at one set price to all buyers. What is this an example of?
 - a. total costs
 - b. fixed costs
 - c. variable costs
 - d. dynamic pricing(b; Moderate; p. 345)
4. Big Mike's Health Food Store sells nutritional energy-producing foods. The price of the products sold varies according to individual customer accounts and situations. For example, long-time customers receive discounts. This strategy is an example of _____.
 - a. price elasticity
 - b. cost-plus pricing
 - c. dynamic pricing
 - d. value pricing(c; Challenging; p. 345)

5. Price is the only element in the marketing mix that produces _____.
a. revenue
b. variable costs
c. expenses
d. fixed costs
(a; Easy; p. 345)
6. Companies set _____ as their major objective if they are troubled by too much capacity, heavy competition, or changing consumer wants.
a. current profit maximization
b. survival
c. market share leadership
d. product quality leadership
(b; Easy; p. 348)
7. *Lawnmowers of Chicago* is a landscaping company established throughout the American Midwest. Upon entering a new community, lower prices are asked for their services. After gaining a respectable reputation in a new area, prices are gradually increased. Starting a business in this manner is an example of which marketing objective?
a. current profit maximization
b. market share leadership
c. product quality leadership
d. survival
(d; Challenging; p. 348)
8. Firms set prices as low as possible in order to become the _____.
a. product quality leader
b. market share leader
c. customer quality leader
d. profit maximization leader
(b; Easy; p. 348)
9. Caterpillar charges 20 percent to 30 percent more than competitors for its heavy construction equipment based on superior product and service quality. This is an example of _____.
a. survival
b. current profit maximization
c. market share leadership
d. product quality leadership
(d; Moderate; p. 348)

10. Companies may set prices low for which of the following reasons?
- to prevent competition from entering the market
 - to stabilize the market
 - to create excitement for a product
 - all of the above
- (d; Easy; p. 348)
11. Which of the following pricing objectives is most used by a university?
- partial cost recovery
 - full cost recovery
 - social price
 - cost-plus pricing
- (a; Easy; p. 348)
12. Swatch surveyed the market and identified an unserved segment of watch buyers. Using these results, they created a watch at a price consumers were willing to pay. The unorthodox order of this marketing mix decision is an example of _____.
- competition-based pricing
 - cost-plus pricing
 - target costing
 - value-based pricing
- (c; Moderate; p. 348)
13. Johnson Controls produces climate-control systems for office buildings. Research showed that customers were more concerned about the total cost of installing and maintaining a system than its initial price. This knowledge is an example of _____, which the company may use to become more competitive.
- target costing
 - value pricing
 - cost-plus pricing
 - a nonprice position
- (d; Easy; p. 350)
14. Costs that do not vary with production or sales level are referred to as _____.
- fixed costs
 - variable costs
 - target costs
 - total costs
- (a; Easy; p. 350)
15. Costs that vary directly with the level of production are referred to as _____.
- fixed costs
 - variable costs
 - target costs
 - total costs
- (b; Easy; p. 350)

16. _____ are the sum of the _____ and _____ for any given level of production.
- Fixed costs; variable; total costs
 - Fixed costs; total; variable costs
 - Variable costs; fixed; total costs
 - Total costs; fixed; variable costs
- (d; Easy; p. 351)
17. SRAC is an acronym for _____.
- strategic reasoning and costs
 - short-run accounting costs
 - short-run average cost curve
 - strategic rights and company
- (c; Easy; p. 351)
18. Fixed costs _____ as number of units produced increases.
- decrease
 - increase
 - divide in half
 - remain the same
- (a; Easy; p. 351)
19. The long-run average cost curve (LRAC) helps the producer understand which of the following?
- It shows how large a business should be, to be most efficient.
 - It deals mainly with competitor's prices.
 - It deals mainly with external factors.
 - none of the above
- (a; Challenging; p. 351)
20. As production experience increases, the average cost per unit decreases. This drop is called the _____.
- demand curve
 - experience curve
 - short-run average cost curve
 - long-run average cost curve
- (b; Easy; p. 351)
21. When a downward-sloping experience curve exists, a company should usually _____ the selling price of that product, in order to bring in higher revenues.
- increase
 - greatly increase
 - decrease
 - not alter
- (c; Easy; p. 351)

22. Price setting is usually determined by _____ in small companies.
- top management
 - marketing departments
 - sales departments
 - divisional managers
- (a; Easy; p. 352)
23. Price setting is usually determined by _____ in large companies.
- top management
 - divisional managers
 - product line managers
 - both b and c
- (d; Easy; p. 352)
24. In industrial markets, _____ has the final say in setting the pricing objectives and policies of that company.
- the sales manager
 - top management
 - the production manager
 - the finance manager
- (b; Moderate; p. 352)
25. Which of the following falls under the category of an industrial company?
- bubble gum producers
 - furniture producers
 - steel producers
 - clothing producers
- (c; Easy; p. 352)
26. Which of the following is an external factor that affects pricing decisions?
- the salaries of production management
 - competition
 - the salaries of finance management
 - funds expensed to clean production equipment
- (b; Easy; p. 352)
27. Under _____, the market consists of many buyers and sellers trading in a uniform commodity such as wheat, copper, or financial securities.
- pure competition
 - monopolistic competition
 - oligopolistic competition
 - pure monopoly
- (a; Easy; p. 352)

28. In Lima, Peru, twenty stores specializing in selling the same quality and brand of wheat products are located on one street. An individual seller cannot charge more than the going price without the risk of losing business to the other stores that are still selling the product at its uniform price. This is an example of what type of market?
- pure competition
 - monopolistic competition
 - oligopolistic competition
 - pure monopoly
- (a; Challenging; p. 352)
29. Under _____, the market consists of many buyers and sellers who trade over a range of prices rather than a single market price.
- pure competition
 - monopolistic competition
 - oligopolistic competition
 - pure monopoly
- (b; Easy; p. 353)
30. Under _____, the market consists of a few sellers who are highly sensitive to each other's pricing and marketing strategies.
- pure competition
 - monopolistic competition
 - oligopolistic competition
 - pure monopoly
- (c; Easy; p. 353)
31. In _____, competition is not a price setting consideration.
- Bob's Shiny Copper Products
 - Kinko's
 - Randy Rotsky's Car Sales
 - The U.S. Postal Service
- (d; Moderate; p. 353)
32. Nonregulated monopolies are free to price at what the market will bear. However, they do not always charge the full price for a number of reasons. What is not one of those reasons?
- They desire to attract competition.
 - They desire to penetrate the market faster with a low price.
 - They have a fear of government regulation.
 - They want to encourage government regulations.
- (d; Moderate; p. 353)

33. If customers perceive that the price is greater than the product's value, they will buy it, but the seller loses _____.
- a. target cost
 - b. price elasticity
 - c. profit opportunities
 - d. break-even pricing

(c; Challenging; p. 354)

34. The relationship between the price charged and the resulting demand level can be shown as the _____.
- a. demand curve
 - b. variable cost
 - c. target cost
 - d. break-even pricing

(a; Easy; p. 354)

35. When Gibson Guitar Corporation lowered its prices to compete more effectively with Japanese rivals, why did they not sell more guitars?
- a. The Gibson guitars were not as well made as the Japanese guitars.
 - b. The market was already flooded with guitars.
 - c. The sound of the Gibson guitar was not as good as the Japanese guitars.
 - d. Customers were unable to distinguish the superiority of the Gibson guitar when it was at a lower price.

(d; Challenging; p. 354)

36. _____ is how responsive demand will be to a change in price.
- a. Price elasticity
 - b. Break-even pricing
 - c. Demand curve
 - d. Target cost

(a; Easy; p. 355)

37. If demand hardly changes with a small change in price, we say the demand is _____.
- a. variable
 - b. inelastic
 - c. value-based
 - d. at break-even pricing

(b; Easy; p. 355)

38. If demand changes greatly with a small change in price, we say the demand is _____.
- a. inelastic
 - b. variable
 - c. elastic
 - d. value-based
- (c; Easy; p. 355)
39. When we are talking about price elasticity of demand, the less elastic the demand, the more it pays for the seller to _____.
- a. drop the price
 - b. raise the price
 - c. leave the price where it is
 - d. discontinue the item
- (b; Moderate; p. 355)
40. Buyers are less price sensitive for all of the following reasons except _____.
- a. when the product they are buying is unique
 - b. when the product they are buying is in high demand
 - c. when substitute products are hard to find
 - d. when the total expenditure for a product is high relative to their income
- (d; Easy; p. 355)
41. By pledging to be a leader in providing clean, renewable energy sources and developing products and services that help consumers protect the environment, Green Mountain Power competes successfully against “cheaper” brands that focus on more price-sensitive consumers. They have the firm belief that even kilowatt hours can be _____.
- a. cost-plus priced
 - b. a demand curve
 - c. differentiated
 - d. value-based priced
- (c; Challenging; p. 356)
42. If Cannon Camera Company follows a high-price, high-margin strategy, what will likely happen to other companies such as Nikon, Minolta, and Pentax?
- a. They will go out of business.
 - b. They will want to compete against Cannon.
 - c. They will advertise less.
 - d. none of the above
- (b; Challenging; p. 356)

43. If Cannon Camera Company follows a low-price, low-margin strategy, what will likely happen to other companies such as Nikon, Minolta, and Pentax?
- They will not be able to compete or it may drive them out of the market.
 - They will want to compete against Cannon.
 - They will advertise less.
 - none of the above
- (a; Challenging; p. 356)
44. When setting prices, the company also must consider other factors in its external environment. _____ can have a strong impact on the firm's pricing strategies. This includes factors such as boom or recession, inflation, and interest rates affecting pricing decisions.
- Demand curve
 - Economic conditions
 - Target costing
 - Value-based pricing
- (b; Moderate; p. 357)
45. When setting prices, the company also must consider other factors in its external environment. How will _____ react to various prices? The company should set prices that will allow these people to receive a fair profit.
- resellers
 - producers
 - consumers
 - the elderly
- (a; Easy; p. 357)
46. When companies set prices, the government and social concerns are two _____ affecting pricing decisions.
- external factors
 - internal factors
 - economic conditions
 - demand curves
- (a; Easy; p. 357)
47. Product costs set a(n) _____ to the price.
- demand curve
 - experience curve
 - floor
 - learning curve
- (c; Easy; p. 357)

48. Consumer perceptions of the products value set the _____.
a. demand curve
b. floor
c. ceiling
d. variable cost
(c; Moderate; p. 357)
49. Companies set prices by selecting a general pricing approach that includes one or more of three sets of factors. One of these is the cost-based approach which means _____.
a. value-based pricing
b. going-rate and sealed-bid pricing
c. cost-plus pricing, break-even analysis, and target profit pricing
d. none of the above
(c; Challenging; p. 357)
50. Companies set prices by selecting a general pricing approach that includes one or more of three sets of factors. One of these is the buyer-based approach which means _____.
a. value-based pricing
b. going-rate and sealed-bid pricing
c. cost-plus pricing, break-even analysis, and target profit pricing
d. none of the above
(a; Challenging; p. 359)
51. Companies set prices by selecting a general pricing approach that includes one or more of three sets of factors. One of these is the competition-based approach which means _____.
a. value-based pricing
b. going-rate and sealed-bid pricing
c. cost-plus pricing, break-even analysis, and target profit pricing
d. none of the above
(b; Challenging; p. 361)
52. Lawyers, accountants, and other professionals typically price by adding a standard markup for profit. This is known as _____.
a. variable costs
b. cost-plus pricing
c. value-based price
d. break-even price
(b; Easy; p. 357)

53. _____ pricing works only if that price actually brings in the expected level of sales.
- Elasticity
 - Markup
 - Variable
 - Inelasticity
- (b; Challenging; p.358)
54. What is one reason that markup pricing is not practical?
- Sellers earn a fair return on their investment.
 - By tying the price to cost, sellers simplify pricing.
 - When all firms in the industry use this pricing method, prices tend to be similar.
 - This method ignores demand.
- (d; Moderate; p. 358)
55. When all firms in the industry use this pricing method, prices tend to be similar.
- markup pricing
 - variable pricing
 - inelasticity pricing
 - elasticity pricing
- (a; Moderate; p. 358)
56. When all firms in the industry use this pricing method, price competition is minimized.
- variable pricing
 - markup pricing
 - elasticity pricing
 - inelasticity pricing
- (b; Moderate; p. 358)
57. Many people feel that _____ pricing is fairer to both buyers and sellers. Sellers earn a fair return on their investment but do not take advantage of buyers when buyers' demand becomes great.
- variable
 - markup
 - elasticity
 - inelasticity
- (b; Moderate; p. 358)
58. Break-even pricing, or a variation called _____ is when the firm tries to determine the price at which it will break even to make the profit it is seeking.
- competition-based pricing
 - target profit pricing
 - fixed cost
 - value-based pricing
- (b; Easy; p. 358)

59. Target pricing uses the concept of a _____, which shows the total cost and total revenue expected at different sales volume levels.
- value-based chart
 - break-even chart
 - competition-based chart
 - demand curve
- (b; Easy; p. 358)
60. As a manufacturer increases price, _____ volume drops.
- target
 - break-even
 - cost-plus pricing
 - total cost
- (b; Moderate; p. 359)
61. As a manufacturer increases price, _____ for their product falls off.
- cost-plus pricing
 - value-based pricing
 - demand
 - the experience curve
- (c; Easy; p. 359)
62. _____ uses buyers' perceptions of what a product is worth, not the seller's cost, as the key to pricing.
- Value-based pricing
 - Target costing
 - Variable costs
 - Price elasticity
- (a; Challenging; p. 359)
63. In _____, price is considered along with the other marketing mix variables before the marketing program is set.
- target pricing
 - value-based pricing
 - variable costs
 - price elasticity
- (b; Challenging; p. 359)
64. _____ pricing is product driven. The company designs what it considers to be a good product, totals the expenses of making the product, and sets a price that covers costs plus a target profit.
- Value-based
 - Fixed cost
 - Cost-based
 - Variable
- (c; Challenging; p. 359)

65. Value-based pricing is the reverse process of what?
- variable cost pricing
 - cost-plus pricing
 - cost-based pricing
 - none of the above
- (c; Moderate; p. 359)
66. In _____ price is set to match consumers' perceived value.
- variable cost pricing
 - cost-plus pricing
 - cost-based pricing
 - value-based pricing
- (d; Moderate; p. 359)
67. Measuring _____ can be difficult. A company might conduct surveys to test this of the different products they offer.
- price elasticity
 - demand curve
 - perceived value
 - break-even pricing
- (c; Challenging; p. 360)
68. Under-priced products sell very well, but they produce less revenue than they would have if price were raised to the _____ level.
- perceived value
 - value-based
 - variable
 - demand curve
- (a; Moderate; p. 360)
69. During the past decade, marketers have noted a fundamental shift in consumer attitudes toward price and quality. How is this shift defined?
- Give customers more for less.
 - Give customers more symbols.
 - Customers demand higher quality products.
 - Customers want more selection.
- (a; Easy; p. 360)
70. When Taco Bell and McDonald's offer meals at a lower price than what it would cost to purchase each individual item from the meal it is called _____.
- break-even pricing
 - target profit pricing
 - value pricing
 - cost-plus pricing
- (c; Challenging; p. 363)

71. _____ involves redesigning existing brands in order to offer more quality for a given price or the same quality for less.
- Break-even pricing
 - Target pricing
 - Value pricing
 - Cost-plus pricing
- (c; Moderate; p. 361)
72. _____ is a company's power to maintain or even raise prices without losing market share.
- Variable cost
 - Pricing power
 - Target cost
 - Fixed cost
- (b; Easy; p. 361)
73. To maintain a company's _____, a firm must retain or build the value of its marketing offer.
- variable cost
 - pricing power
 - target cost
 - fixed cost
- (b; Challenging; p. 361)
74. When there is intense price competition, many companies adopt _____ rather than cutting prices to match competitors.
- pricing power
 - value-added strategies
 - fixed costs
 - price elasticity
- (b; Moderate; p. 361)
75. What is the important type of value pricing that Wal-Mart uses?
- competition-based pricing
 - EDLP
 - cost-plus pricing
 - break-even pricing
- (b; Easy; p. 361)
76. _____ involves charging a constant, everyday low price with few or no temporary price discounts.
- High-low pricing
 - Target pricing
 - Cost-plus pricing
 - EDLP
- (d; Moderate; p. 361)

77. What is the type of pricing that Kmart uses?
- EDLP
 - variable pricing
 - high-low pricing
 - target pricing
- (c; Challenging; p. 361)
78. Retailers adopt EDLP for many reasons. The most important of which is that _____.
- constant sales and promotions are costly and have eroded consumer confidence in the credibility of everyday shelf prices
 - running frequent promotions to lower prices temporarily on selected items brings more customers into their stores
 - when their level of production is up, they can charge more for their products
 - none of the above
- (a; Moderate; p. 361)
79. Some reasons that consumers like _____ so well are because consumers have less time and patience for such time-honored traditions as watching for supermarket specials and clipping coupons.
- variable pricing
 - high-low pricing
 - EDLP
 - break-even
- (c; Moderate; p. 361)
80. Why did Kmart's strategy to follow Wal-Mart's EDLP fail?
- Kmart had too much inventory.
 - Because Kmart had no friendly greeters at their doors.
 - Because Wal-Mart's expenses are only 15 percent of sales.
 - Because K-mart customers demanded high-low pricing.
- (c; Challenging; p. 361)
81. One form of _____ is going-rate pricing, in which a firm bases its price largely on competitors' prices, with less attention paid to its own costs or to demand.
- EDLP
 - cost-plus pricing
 - break-even pricing
 - competition-based pricing
- (d; Easy; p. 361)

82. One form of competition-based pricing is _____, in which a firm bases its price largely on competitors' prices, with less attention paid to its own costs or to demand.
- EDLP
 - going-rate pricing
 - cost-plus pricing
 - break-even pricing
- (b; Easy; p. 361)
83. _____ is used when firms feel that this price represents the collective wisdom of the industry concerning the price that will yield a fair return.
- Going-rate pricing
 - EDLP
 - Cost-plus pricing
 - Break-even pricing
- (a; Easy; p. 361)
84. Firms feel that holding to _____ will prevent harmful price wars.
- sealed-bid pricing
 - the demand curve
 - price elasticity
 - the going price
- (d; Moderate; p. 361)
85. Using _____, a company bases its price on how it thinks competitors will price rather than on its own costs or on the demand.
- sealed-bid pricing
 - cost-plus pricing
 - dynamic pricing
 - market share leadership
- (a; Challenging; p. 361)
86. _____ remains an important element in the marketing mix. It is the only element that produces revenue; all other elements represent costs.
- Current profit maximization
 - Market share leadership
 - Price
 - Product quality leadership
- (c; Challenging; p. 345)

87. Common _____ objectives include survival, current profit maximization, market share leadership, and product quality leadership.
- a. pricing
 - b. management
 - c. marketing mix
 - d. cost-plus pricing
- (a; Moderate; p. 348)
88. _____ usually sets pricing policies and approves proposed prices.
- a. A customer
 - b. Accounting management
 - c. Finance management
 - d. None of the above
- (d; Easy; p. 348)
89. _____ that influence pricing decisions include the nature of the market and demand; competitors' prices and offers; and factors such as the economy, reseller needs, and government actions.
- a. Internal factors
 - b. Elasticity
 - c. External factors
 - d. Target factors
- (c; Moderate; p. 352)
90. The more _____ the demand, the higher the company can set its price.
- a. elastic
 - b. external
 - c. internal
 - d. inelastic
- (d; Challenging; p. 355)

True – False

91. Fixed price policies – setting one price for all buyers – is a relatively ancient idea.
(False; Easy; p. 345)
92. Many companies handle pricing well.
(False; Easy; p. 345)
93. Pricing often plays an important role in helping to accomplish a company's multi-level objectives.
(True; Easy; p. 345)

94. In general, nonprofit and public organizations use only one pricing objective.
(False; Easy; p. 348)
95. Target costing reverses the usual marketing process.
(True; Easy; p. 348)
96. The success of Swatch in selling watches demonstrates that only highly priced products will survive in the modern market.
(False; Easy; p. 349)
97. The majority of customers make their purchases based on price alone, regardless of the benefits received for the price paid.
(False; Easy; p. 349)
98. Overhead cost is another term for variable cost.
(False; Easy; p. 350)
99. Average cost increases with accumulated production experience.
(False; Easy; p. 351)
100. A downward-sloping experience curve is beneficial for a company.
(True; Easy; p. 351)
101. In industrial markets, salespeople outrank top management in determining the sales price of products.
(False; Easy; p. 352)
102. In industrial markets, product managers have an influence on the company's price setting decisions.
(True; Easy; p. 352)
103. Environmental elements are categorized as external factors that affect pricing decisions.
(True; Easy; p. 352)
104. Marketers may learn a few simple rules that apply equally to all price-demand relationships.
(False; Moderate; p. 353)
105. A government monopoly can pursue a variety of pricing objectives.
(True; Easy; p. 353)
106. Nonregulated monopolies do not always charge the full price because they do not desire to attract competition.
(True; Moderate; p. 353)

107. The demand curve shows the number of units the market will buy in a given time period at different prices that might be charged. In normal cases, the higher the price, the higher the demand.
(False; Easy; p. 354)
108. If demand changes greatly, we say the demand is inelastic.
(False; Easy; p. 355)
109. The more elastic the demand, the more it pays for the seller to raise the price.
(False; Challenging; p. 355)
110. If Canon Camera Company follows a high-price, high-margin strategy, it may attract competition from Nikon, Minolta, and Pentax.
(True; Moderate; p. 356)
111. Product costs set a floor to the price; consumer perceptions of the product's value set the ceiling.
(True; Easy; p. 357)
112. The simplest pricing method is break-even pricing—adding a standard markup to the cost of the product.
(False; Easy; p. 357)
113. Markup pricing is popular because it simplifies pricing by basing the price on the buyers' perceptions of value.
(False; Easy; p. 358)
114. Target profit pricing is when the firm tries to determine the price at which it will break even or make the profit it is seeking.
(True; Moderate; p. 358)
115. Value-based pricing is when costs vary directly with the level of production.
(False; Moderate; p. 359)
116. Value-based pricing is the reverse of cost-based pricing.
(True; Challenging; p. 359)
117. During the past decade, there has been a fundamental shift in consumers' attitudes toward price and quality. This attitude is "We want more brand names!"
(False; Moderate; p. 360)
118. EDLP is very similar to competition-based pricing.
(False; Easy; p. 361)
119. Competitors' prices and offers are external factors that companies have to deal with.
(True; Easy; p. 361)

120. Demand and consumer value perceptions set the floor for prices.
(False; Moderate; p. 354)

121. A company must learn the price and quality of competitors' offers and use them as a starting point for its own pricing.
(True; Easy; p. 361)

122. Cost-based pricing relies on consumer perception of value to drive pricing decisions.
(False; Easy; p. 358)

Essay

123. Pricing and price competition account for the number one problem facing many marketing executives. What are some of the frequent problems that companies encounter?

1) Companies are too quick to reduce prices in order to get a sale rather than convincing buyers that their products are worth a higher price. 2) Company's pricing is too cost oriented rather than customer-value oriented. 3) They have prices that are not revised often enough to reflect market changes. There are more answers also.

(Challenging; p. 345)

124. Compare pure competition with monopolistic competition.

Pure competition-the market consists of many buyers and sellers trading in a uniform commodity. No single buyer or seller has much effect on the going market price. Monopolistic competition-the market consists of many buyers and sellers who trade over a range of prices rather than a single market price. A range of prices occurs because sellers can differentiate their offers to buyers.

(Challenging; pp. 352-353)

125. Compare oligopolistic competition with pure monopoly.

Oligopolistic competition—the market consists of a few sellers who are highly sensitive to each others' pricing and marketing strategies. There are few sellers because it is difficult for new sellers to enter the market. Pure monopoly—the market consists of one seller. Pricing is handled differently in each case. The seller may be a government monopoly, a private nonregulated monopoly, or a private regulated monopoly.

(Challenging; p. 353)

126. Describe what a demand curve is and how it helps businesses.

It estimates consumer demand at different prices. In a monopoly, the demand curve shows the total market demand resulting from different prices. If the company faces competition, its demand at different prices will depend on whether competitors' prices stay constant or change with the company's own prices.

(Moderate; p. 354)

127. Explain price elasticity of demand.

If demand hardly changes with a small change in price, we say the demand is inelastic. If demand changes greatly, we say the demand is elastic. The price of elasticity of demand is given by a formula on pages 355-356. (There is more that students may put for this answer also.)

(Moderate; p. 355)

128. The company must consider the impact its prices will have on resellers. Identify three ways the company can help resellers.

1) The company should set prices that give resellers a fair profit. 2) The company should encourage their support. 3) The company should help them to sell the product effectively.

(Easy; p. 357)

129. When setting prices, the company must consider its external environment. Describe four parts of the external environment and how they affect businesses.

1) Economic conditions affect both the costs of producing a product and consumer perceptions of the product's price and value. 2) The company should encourage and support resellers and help them to sell the product effectively. 3) The government is another important influence on pricing decisions. 4) Social concerns wherein a company's short-term sales, market share, and profit goals may have to be tempered by broader societal considerations.

(Challenging; pp. 352-353)

130. Explain how break-even pricing and target profit pricing are similar and how they help a business.

The firm tries to determine the price at which it will break even or make the target profit it is seeking. Target pricing uses a break-even chart, which shows the total cost and total revenue expected at different sales volume levels. This way a company can determine when the price increases to a certain level that the volume of sales will drop.

(Challenging; pp. 358-359)