

Chapter 12

Pricing Strategies

Multiple Choice

1. The massive nonprice positioning effort is a bold move in a wireless industry strewn with price and promotional offers. AT&T is trying to change the basis of industry competition with a move toward competing on _____.
 - a. warm fuzzies
 - b. service
 - c. warranties
 - d. “free” offers

(a; Easy; p. 370)

2. A company sets not a single price, but rather a _____ that covers different items in its line that change over time as products move through their life cycles.
 - a. pricing range
 - b. pricing structure
 - c. pricing loop
 - d. pricing cycle

(b; Moderate; p. 370)

3. Companies bringing out new products face the challenge of setting prices for the first time. In addition to market-skimming pricing, what is the other alternative?
 - a. market-level pricing
 - b. market-competitive pricing
 - c. market-penetration pricing
 - d. market-price lining

(c; Easy; p. 371)

4. Valeo Fashions has just introduced a new line of fashion dresses for teens. They will enter the market initially at high prices in a _____ pricing strategy.
 - a. market-penetration
 - b. market-skimming
 - c. competitive market
 - d. psychological

(b; Moderate; p. 371)

5. Which of the following does not support a market-skimming policy for a new product?
- The product's quality and image must support its higher price.
 - Enough buyers must want the products at that price.
 - Competitors should not be able to undercut the high price.
 - Competitors should be allowed to enter the market easily.
- (d; Challenging; p. 371)
6. The purpose of _____ pricing is to set a low initial price in order to attract a large number of buyers quickly and win a large market share.
- market-skimming
 - market-penetration
 - below-market
 - leader
- (b; Easy; p. 371)
7. All of the following conditions support market-penetration pricing except one.
- The market must be highly price sensitive.
 - Production and distribution costs must fall as sales volume increase.
 - The product's quality and image must support the price.
 - The low price must help keep out the competition.
- (c; Challenging; p. 372)
8. Pricing is difficult because the various products have related _____ and costs, and face different degrees of _____.
- demand; product modifications
 - demand; competition
 - competition; obsolescence
 - substitutes; customer loyalty
- (b; Moderate; p. 372)
9. Companies usually develop _____ rather than single products.
- product families
 - product groupings
 - product lines
 - product brands
- (c; Easy; p. 372)
10. A marketer must be familiar with the five major product mix pricing situations. Which of the following is not one of them?
- product line pricing
 - optional-product pricing
 - captive-product pricing
 - unbundled product pricing
- (d; Moderate; p. 372)

11. A challenge for management in product line pricing is to decide on the price steps between the _____.
- various products in a line
 - product mixes
 - product groupings
 - product lines
- (a; Moderate; p. 372)
12. When Circuit Town Electronics sets their televisions at three price levels of \$699, \$899, and \$1099, it is using _____.
- price points
 - tier-level pricing
 - market-penetration pricing
 - none of the above
- (a; Easy; p. 372)
13. When using price points, the seller must establish perceived _____ that support the price differences.
- nonprice competition
 - quality differences
 - service levels associated with each
 - all of the above
- (b; Challenging; p. 372)
14. A general practice when using captive-product pricing is to set the price of the main product _____ and set _____ on the associate's supplies.
- low; low markups
 - high; low markups
 - low; high markups
 - high; high markups
- (c; Moderate; p. 373)
15. When Kodak sets the general price range of its cameras low and its related film high it is practicing _____.
- market-penetration pricing
 - market-skimming pricing
 - product line pricing
 - captive-product pricing
- (d; Challenging; p. 373)

16. Hotline Long Distance Service uses captive-product pricing for its phone call charges. Since this is a service, the price is broken into a fixed rate plus a _____.
a. fixed rate usage
b. variable usage rate
c. flexible usage rate
d. volume usage rate
(b; Challenging; p. 374)
17. When amusement parks and movie theaters charge admission plus fees for food and other attractions, they are following a(n) _____ pricing strategy.
a. by-product
b. optional-product
c. captive-product
d. skimming
(c; Challenging; p. 374)
18. When management at Yamaha Motorcycles makes decisions on which type of saddlebags, handle bars, and seats for its bikes, they become engaged in _____.
a. product line pricing
b. optional-product pricing
c. captive-product pricing
d. by-product pricing
(b; Challenging; p. 372)
19. Companies that have a problem of deciding which items to include in the base price and which to offer as options are engaged in _____ pricing.
a. product bundle
b. optional-product
c. captive-product
d. by-product
(b; Moderate; p. 372)
20. What will by-product pricing allow a seller to do? Keep in mind that the seller must sell the by-products at a price that covers more than the cost of storing and delivering them.
a. increase the main product's price
b. make extra profit
c. reduce the main product's price
d. none of the above
(c; Challenging; p. 374)

21. Sometimes, companies don't realize how _____ their by-products are.
- costly
 - time consuming
 - valuable
 - unnecessary
- (c; Easy; p. 374)
22. Upon what is product bundle pricing based? Sellers can combine several products and offer the bundle _____.
- as a working unit
 - at a reduced price
 - as a complete self-service package
 - any of the above
- (b; Moderate; p. 375)
23. Latest Flicks offers weekly movie tickets for \$15 and season tickets for \$150. This theater is offering _____ pricing.
- by-product
 - captive-product
 - product bundling
 - discounted
- (c; Challenging; p. 375)
24. What is a major advantage of product bundle pricing?
- It can promote the sales of products consumers might not otherwise buy.
 - It offers consumers more value for the money.
 - It combines the benefits of the other pricing strategies.
 - It provides a more complete product experience for consumers.
- (a; Moderate; p. 375)
25. Service Industries, Inc. plans to offer a price-adjustment strategy in the near future. Which of the following would management not consider?
- discount and allowance pricing
 - segmented pricing
 - physiological pricing
 - promotional pricing
- (c; Challenging; p. 375)
26. A manufacturer gives 3/07, net 30 terms to a wholesaler for a recent purchase. The wholesaler may deduct _____ percent if the bill is paid within _____ days.
- 7; 30
 - 7; 3
 - 3; 30
 - 3; 10
- (d; Moderate: p. 375)

27. Discounts and allowances are price adjustments to the basic price to reward customers for all of the following except _____.
a. early payment of bills
b. off-season buying
c. accepting early delivery
d. volume purchases
(c; Easy; p. 375)
28. Quantity discounts are a legal form of price discrimination. A quantity discount is a price reduction to buyers who purchase _____.
a. frequently
b. large volumes
c. close outs
d. inferior merchandise
(b; Easy; p. 375)
29. Walsh Supply Company wants to improve its cash situation, reduce bad debts, and reduce credit-collection costs. Management might consider this form of pricing.
a. by-product
b. inflation-adjusted
c. discount and allowance
d. captive-product
(c; Challenging; p. 375)
30. Quantity discounts must be offered equally to all customers and must not exceed the seller's _____ associated with selling large quantities.
a. cost savings
b. standard markup
c. promotional costs
d. losses
(a; Moderate; p. 375)
31. Why do companies offer functional discounts to channel members? It is because they _____.
a. perform certain marketing functions
b. perform certain jobs that save them money
c. function better as resellers
d. none of the above
(a; Moderate; p. 375)

32. When a firm or store offers a price reduction to customers who buy during off-peak periods during the year, we say the firm is giving a(n) _____ discount.
- a. functional
 - b. seasonal
 - c. annual
 - d. allowance

(b; Easy; p. 375)

33. When General Motors provides payments or price reductions to its new car dealers as rewards for participating in advertising and sales support programs, it is granting a(n) _____.
- a. trade discount
 - b. functional discount
 - c. allowance
 - d. promotional allowance

(d; Easy; p. 376)

34. Discounts provide an incentive to the customer to buy_____.
- a. more products or services
 - b. less from another competitor
 - c. more from one given seller, rather than from many different sources
 - d. more than he or she needs

(c; Moderate; p. 375)

35. Vac 'N' Sew will give anyone \$100 for the family's old vacuum cleaner, regardless of condition, when purchasing a new vacuum or sewing machine. The end result is essentially reducing the price by \$100. What is this type of discount called?
- a. functional discount
 - b. captive-product
 - c. seasonal discount
 - d. trade-in allowance

(d; Easy; p. 376)

36. By definition, this type of pricing is used when a firm sells a product or service at two or more prices, even though the difference in prices is not based on differences in cost.
- a. segmented pricing
 - b. variable pricing
 - c. flexible pricing
 - d. cost-plus pricing

(a; Moderate; p. 376)

37. The New Age Art Gallery has three admission prices for students, adults, and seniors. All three groups are entitled to the same services. This form of pricing is called _____.
- time pricing
 - location pricing
 - customer-segmented pricing
 - revenue management pricing
- (c; Challenging; p. 376)
38. Superior Tool Company prices its most expensive electric drill at \$99.95, which is \$21.00 more than its next most expensive drill. It only costs a few dollars more to make the most expensive drill. Superior is using _____ pricing.
- segmented
 - product-form
 - skimming
 - penetration
- (b; Challenging; p. 376)
39. Busch Stadium in St. Louis charges different prices for seats in different areas of the ballpark, even though their costs are the same. What is this form of pricing called?
- location
 - skimming
 - segmented
 - flexible
- (a; Moderate; p. 376)
40. When a firm varies its price by the season, month, day, or even hour, it is using _____ pricing.
- revenue management
 - penetration
 - variable
 - time
- (d; Easy; p. 376)
41. Airlines, hotels, and restaurants call segmented pricing _____.
- time pricing
 - yield management
 - location pricing
 - segmented
- (b; Easy; p. 376)

42. Which of the following conditions should exist for segmented pricing to be an effective strategy?
- The market must be segmentable.
 - The segments must show different degrees of demand.
 - Competitors can't undersell in the segment being charged the higher price.
 - All of the above
- (d; Challenging; p. 376)
43. Which of the following conditions should exist for segmented pricing to be an effective strategy?
- It must be legal.
 - The costs of segmenting should exceed the extra revenue obtained.
 - Prices should reflect real differences in customers' perceived value.
 - All of the above
- (d; Challenging; p. 376)
44. Consumers usually perceive higher-priced products as _____.
- out of reach for most people
 - having higher quality
 - having high profit margins
 - exclusive brands
- (b; Easy; p. 377)
45. Price is used less when judging the quality of a product when consumers _____.
- lack information
 - lack skills to use it
 - have experience with it
 - none of the above
- (c; Moderate; p. 377)
46. John and Susan own fur coats and are currently shopping for two new ones. They both have prices in mind and refer to them when shopping. They are termed _____.
- psychological prices
 - reference prices
 - comparison prices
 - price points
- (b; Moderate; p. 377)
47. When consumers cannot judge quality because they lack the information or skill, price becomes _____.
- less important
 - insignificant
 - an important quality signal
 - any of the above
- (c; Easy; p. 377)

48. Which of the following is not a typical way a reference price might be formed in a buyer's mind?
- noting current prices
 - remembering past prices
 - assessing the buying situation
 - comparing to a new product
- (d; Easy; p. 377)
49. When using promotional pricing, companies will temporarily price their products below list price and sometimes _____ to create buying excitement and urgency.
- below cost
 - above list price
 - below competitors' prices
 - well below cost
- (a; Moderate; p. 378)
50. When a store reduces the price of several items in the hope that customers will buy other items at normal markups, the store is using this type of pricing.
- promotional
 - list price
 - loss leaders
 - psychological
- (c; Easy; p. 378)
51. Although it actually does not reduce the price of an item, some manufacturers offer one of these to "reduce the consumer's price."
- longer warranties
 - free maintenance
 - low-interest financing
 - all of the above
- (d; Moderate; p. 378)
52. Promotional pricing can have adverse effects. Which of these is not one of them?
- create deal-prone customers
 - erode the brand's value in the eyes of customers
 - give pricing secrets away to competitors
 - become addicting to both the customer and business
- (c; Challenging; p. 378)
53. The frequent use of promotional pricing can lead to industry _____.
- losses
 - price wars
 - erosion
 - competition
- (b; Moderate; p. 378)

54. When customers buy products from manufacturers' dealers within a specified time, the manufacturer sends the customer a check called a _____.
a. cash rebate
b. discount
c. dealer reduction
d. promotional pricing reward
(a; Easy; p. 378)
55. Kmart's mishandling of promotional pricing started a price war that _____.
a. boosted the industry
b. it could never win
c. drove out competition
d. decreased its stock price
(b; Moderate; p. 379)
56. Wake Forest Landscaping ships its products to 28 different states. The owners are reconsidering how to price many products for customers located in different parts of the country. The owner must now deal with _____ pricing.
a. zone
b. geographical
c. uniform-delivered
d. FOB-origin
(b; Moderate; p. 379)
57. When a company charges the same price plus freight to all customers, regardless of location, it is using what form of pricing?
a. FOB-origin
b. geographical
c. uniform-delivered
d. zone
(c; Easy; p. 381)
58. Meldanado Equipment Company charges all customers within a given geographical area a single total price—the more distant the area, the higher the price. What is it called?
a. geographical
b. zone
c. uniform-delivered
d. FOB-origin
(b; Moderate; p. 381)

59. Using this form of pricing, the seller selects a given city as a basing point and charges all customers the freight cost from that city to the customer location, regardless of the city from which the goods are actually shipped.
- zone pricing
 - geographic
 - uniform-delivered
 - basing-point
- (d; Easy; p. 382)
60. Using this pricing strategy, the seller “eats” part or all of the actual freight charges in order to get the desired business.
- FOB-origin
 - freight-absorption
 - basing-point
 - loss leader
- (b; Easy; p. 382)
61. Freight-absorption pricing is used for _____ and _____.
- market penetration; higher profits
 - holding on to increasingly competitive markets; higher profits
 - market penetration; holding on to increasingly competitive markets
 - generating temporary higher profits; discouraging competitors
- (c; Moderate; p. 382)
62. The price that a company should charge in a specific country depends on many factors, including all of the following except one. Please locate it.
- economic conditions
 - competitive situations
 - laws and regulations
 - development of the manufacturing infrastructure
- (d; Easy; p. 382)
63. The price that a company should charge in a specific country depends on many factors, including all of the following except one. Which is it?
- development of the wholesaling and retailing system
 - consumer perceptions
 - educational influence
 - consumer preferences
- (c; Moderate; p. 382)

64. Johnson Boats wants to introduce a new model of boat into mature markets in highly developed countries with the goal of quickly gaining mass-market share. As a consultant, you would recommend a _____ pricing strategy.
- skimming
 - penetration
 - zone
 - loss-leader
- (b; Moderate; p. 382)
65. When pricing internationally, most companies adjust their prices to reflect _____.
- local market conditions
 - cost considerations
 - local laws and regulations
 - both a and b
- (d; Easy; p. 382)
66. Price escalation in international markets may result from differences in market conditions or _____.
- cultural preferences
 - selling strategies
 - regional tastes
 - currency instability
- (b; Moderate; p. 383)
67. Price escalation in foreign markets can result from all of the following conditions except one. Your job is to locate the one.
- the additional costs of product modifications
 - the additional costs of shipping and insurance
 - the additional costs of import tariffs and taxes
 - the additional costs of improving a country's infrastructure
- (d; Challenging; p. 383)
68. Price escalation in international markets may result from three of these four marketing conditions. Which one will have little effect?
- the additional costs of physical distribution
 - exchange-rate fluctuations
 - market stability
 - higher costs of selling
- (c; Easy; p. 383)

69. Over the years Imperial Imports has found it desirable to initiate price cuts and price increases because of competition. In both cases, management considered possible competitor and _____ reactions.
- supplier
 - customer
 - government
 - employee
- (b; Moderate; p. 383)
70. Several situations may lead a firm to consider cutting its price. Rule out the incorrect reason.
- excess capacity
 - falling market share in the face of strong price competition
 - a drive to dominate the market through lower costs
 - monopolistic competition
- (d; Challenging; p. 383)
71. Through your studies of market conditions, you learn that two major factors that influence price increases are over-demand and _____.
- cost inflation
 - surplus of raw materials
 - government intervention
 - foreign competition
- (a; Moderate; p. 383)
72. When a company cannot supply all of its customers' needs, it can follow two of the following strategies.
- raise prices or buy from competition
 - raise prices or ration products to customers
 - ration products to customers or buy from competition
 - ask for U.S. Small Business Administration's help or raise prices
- (b; Easy; p. 383)
73. Prices can be raised almost invisibly by dropping discounts and _____.
- increasing advertising and promotion
 - adding higher-priced units to the line
 - eliminating coupons
 - none of the above
- (b; Moderate; p. 384)

74. Natural Cereals, a regional company that makes cereals from many different grains, has lowered prices in the past because of competition. Competition has lessened during the past quarter and management has decided to increase prices. A successful price increase can _____.
- turn customers away
 - greatly increase profits
 - reduce competition
 - draw ICC attention
- (b; Challenging; p. 384)
75. Wherever possible, a company should consider ways to meet higher costs or demand without raising prices. Three of the following will work. Which one would be a poor choice?
- shrink the product size or weight
 - produce the product more cost effectively
 - bundle or group related products
 - substitute less expensive ingredients
- (c; Challenging; p. 384)
76. Competitors are most likely to react to a price change when _____.
- the number of firms involved is small
 - the purchase is uniform
 - the buyers are well informed
 - all of the above
- (d; Moderate; p. 384)
77. A price increase, which would normally lower sales, may have some _____ for buyers.
- positive meaning
 - negative message
 - both a and b
 - none of the above
- (a; Easy; p. 384)
78. When a competitor changes prices, which of the following questions would your firm not ask?
- Was it to take more market share?
 - Was it to use excess capacity?
 - Was it a personal move due to management's personality?
 - Is the price temporary?
- (c; Moderate; p. 385)

79. When a competitor changes prices, which of the following questions would your firm not ask?
- Is the price change permanent?
 - Are other companies going to respond?
 - What will competitors' reactions be?
 - Will company layoffs occur?
- (d; Easy; p. 385)
80. When anticipating a price increase, your company must consider a broader view. Which consideration below is not a common one?
- its own product's stage in the life cycle
 - the product's importance in the company's product mix
 - the intentions and resources of the suppliers
 - the intentions and resources of the competitor
- (c; Challenging; p. 385)
81. To prevent profit loss in the short run due to a forced price cut, a company might employ one of these strategies. Which one?
- increase the product quality
 - reduce standard services
 - increase marketing communications
 - reduce the workforce
- (b; Easy; p. 386)
82. Which one of the following is a typical reaction to a competitor's price reduction?
- reduce the price to match competition
 - raise the perceived quality of the product
 - improve the quality and raise the price of the product
 - All of the above can work.
- (d; Easy; p. 385)
83. When a firm improves the quality and increases the price of a product in a reaction to a competitor making a price reduction, the firm in essence is _____.
- moving its brand into a more competitive position
 - adversely positioning its product
 - moving its brand into a higher-priced position
 - wasting its time
- (c; Challenging; p. 386)
84. When would a company consider launching a low-price fighting brand in response to a competitor reducing prices?
- The market segment being lost is price sensitive.
 - The market segment being lost is not price sensitive.
 - The market segment being lost responds to arguments of higher quality.
 - The market segment being lost no longer demands the product.
- (b; Challenging; p. 386)

85. In setting prices, companies are not usually free to charge whatever prices they wish. Choose the typical influence on pricing that management must consider.
- broad societal pricing concerns
 - federal laws
 - state or local laws
 - all of the above
- (d; Easy; p. 386)
86. Price-fixing, predatory pricing, retail price maintenance, discriminatory pricing, and deceptive pricing are examples of _____.
- common pricing policies
 - major public policy issues in pricing
 - common pricing strategies
 - pricing policies that should never be used
- (b; Moderate; p. 387)
87. When sellers set prices without talking to competitors, thus preventing collusion, they are refraining from engaging in _____.
- predatory pricing
 - discriminatory pricing
 - price fixing
 - all of the above
- (c; Easy; p. 387)
88. An established store in town starts selling numerous items below cost with the intention of punishing small competitors and gaining higher long-run profits by putting them out of business. This store is guilty of _____.
- price collusion
 - price fixing
 - predatory pricing
 - discriminatory pricing
- (c; Challenging; p. 390)
89. The Robinson-Patman Act seeks to prevent unfair _____ by ensuring that sellers offer the same price terms to customers at a given price level.
- monopolies
 - price discrimination
 - competition
 - price collusion
- (b; Moderate; p. 390)

90. A manufacturer cannot require dealers to charge a specified retail price for its product. If it does, then it is guilty of _____.
a. price fixing
b. retail price maintenance
c. price discrimination
d. price collusion
(b; Moderate; p. 390)
91. _____ results when Import Novelties employs pricing methods that make it difficult for consumers to understand just what price they are really paying.
a. Scanner fraud
b. Deceptive pricing
c. Price confusion
d. Misleading pricing
(c; Easy; p. 391)
92. The most common complaint about abuse of scanner-based computer checkouts is _____.
a. failure to provide the correct price
b. overcharging customers
c. wasting time in line arguing about prices
d. none of the above
(b; Easy; p. 391)

True – False

93. mLife is a massive brand-building effort designed to distance AT&T Wireless from the pricing and “dealer-of-the-day” promotions so popular among competitors.
(True; Easy; p. 369)
94. Pricing strategies tend to remain stable as the average product passes through its life cycle.
(False; Easy; p. 370)
95. Companies tend to set a pricing structure, rather than a single price, that covers different items in its line.
(True; Moderate; p. 370)
96. Companies that set a low initial price in order to get their “foot in the door” quickly and deeply, to attract a large number of buyers quickly, and win a large market share practice market-skimming pricing.
(False; Easy; p. 371)

97. Pricing is often difficult because the various products have related demand and costs, and face different degrees of competition.
(True; Moderate; p. 372)
98. When Water Light Fishing Boats commercializes its new product ideas, the company will probably introduce single products one at a time. Later, management will advertise these products as a product line.
(False; Challenging; p. 372)
99. Melt-In-Your-Mouth Candy Stores prices its candy displays at ten different price levels, ranging from \$.99 per pound to \$4.95 per pound. This is an illustration of price points.
(True; Moderate; p. 372)
100. When a major moving van company sells accessory products that must be used in moving a household's furniture, it is practicing captive-product pricing.
(True; Easy; p. 373)
101. Some industries commonly use two-part pricing, where the price is broken down into a fixed fee and a fixed usage rate.
(False; Moderate; p. 374)
102. When a manufacturer seeks a market for by-products and accepts a price that covers more than the cost of storing and delivering them, it is able to reduce the main product's price to make it more competitive.
(True; Moderate; p. 374)
103. All companies today now realize how valuable their by-products are for resale.
(False; Easy; p. 374)
104. When using product bundle pricing sellers combine several of their products and offer the bundle at an increased price for increased profit.
(False; Moderate; p. 375)
105. The six major price-adjustment strategies include discount and allowance pricing, segmented pricing, psychographic pricing, promotional pricing, geographical pricing, and international pricing.
(False; Moderate; p. 375)
106. The difference between a discount and an allowance is that a discount is in its simplest terms a reduction in price.
(True; Easy; p. 375)
107. A recent trade publication article called price reductions on off-peyy meryyandise seasonal diyyounts.
(True; Easy; p. 375)

108. Manufacturers may offer different functional discounts to different trade channels because of the varying services they perform, and they can offer different functional discounts within each trade channel.
(False; Challenging; p. 375)
109. The basic difference between customer-segment pricing and product-form pricing is that the latter offers different versions of the product that are priced differently, but not according to differences in their costs.
(True; Moderate; p. 376)
110. Segmented pricing is known by other names. Two of the most common are revenue distribution and yield control.
(False; Easy; p. 376)
111. For segmented pricing to be effective, certain conditions must exist. The market must be segmentable and the segments must show different degrees of demand. Segmented prices should reflect real differences in customers' perceived value.
(True; Challenging; p. 376)
112. Psychological pricing is based on the concept that sellers consider the psychology of prices, as well as the economics, wherein consumers usually perceive higher-priced products as having higher quality.
(True; Moderate; p. 377)
113. To deal effectively with consumer reference prices, a retailer could display its products next to more expensive ones in order to imply that it belongs in the same class.
(True; Easy; p. 377)
114. Rebate pricing has only a temporary effect and should be discontinued when sales begin to decrease.
(False; Moderate; p. 378)
115. The frequent use of promotional pricing can lead to industry price wars that usually play into the hands of every competitor in that particular industry.
(False; Challenging; p. 378)
116. The FOB-origin pricing strategy means that the goods sold are placed free on board a carrier. At that point the title and responsibility pass to the customer, who pays the freight from the factory to the destination.
(True; Challenging; p. 381)
117. Zone pricing falls between FOB-origin pricing and basing-point pricing.
(False; Easy; p. 381)

118. When Zorba Accents began exporting its products to numerous countries, the owners probably set prices by examining economic conditions, competitive situations, laws and regulations, and the development of the wholesaling and retailing system in each country.
(True; Challenging; p. 382)
119. Rarely will a company attempt to lower costs by cutting its prices in the hopes of gaining market share to further cut costs through larger volume sales.
(False; Moderate; p. 383)
120. Customers tend to interpret price changes in a straightforward way.
(False; Easy; p. 383)
121. Your company may respond to a competitor's price reduction by launching a low-price fighting brand. This is necessary if the particular market segment being lost is price sensitive and will not respond to arguments of higher quality.
(True; Challenging; p. 385)
122. State and federal governments accept some reasons for price fixing when it does not limit competition.
(False; Moderate; p. 386)
123. When Mrs. Olsen on *Little House on the Prairie* raised her store prices 30 percent and then ran a 20 percent off sale she was guilty of deceptive pricing.
(True; Moderate; p. 391)

Essay

124. Companies bringing out a new product can choose between two broad strategies: market-skimming pricing and market-penetration pricing. Distinguish between the two.

Market-skimming is used to skim revenues layer by layer from the market by entering the market with high initial prices. The product's quality and image must support its higher price, and enough buyers must want the product at that price. The costs of producing a smaller volume cannot be so high that they cancel the advantage of charging more. Competitors should not be able to enter the market easily and undercut the high price.

Market-penetration is used to penetrate the market quickly and deeply to attract a large number of buyers quickly and win a large market share by setting a low price initially when it enters the market. The market must be highly price sensitive so that a low price produces more market growth. Production and distribution costs must fall as sales volume increases. The low price must help keep out competition and be maintained over time.

(Moderate; p. 371)

125. Which pricing mix strategy should be used in relation to salable scrap materials and how does it function?

By using by-product pricing, a manufacturer will seek a market for these scraps or by-products and should accept any price that covers more than the cost of storing and delivering them. This practice allows the seller to reduce the main product's price to make it more competitive.

(Easy; p. 374)

126. Why do businesses use cash discounts when they are in essence losing some money on the sale?

Such discounts are customary in many industries and help to improve the sellers' cash situation and reduce bad debts and credit-collection costs.

(Easy; p. 375)

127. When would price cuts and price increases be necessary?

Price cuts may be necessary when there is excess capacity. Another reason is that market share may be falling in the face of strong price competition. A company may also cut prices in a drive to dominate the market through lower costs.

A major factor in price increases is cost inflation. Rising costs squeeze profit margins and lead companies to pass cost increases along to customers. Another factor leading to price increases is overdemand. When a company cannot supply all its customers' needs, it can raise its prices, ration products to customers, or both.

(Challenging; pp. 383-384)

128. When are competitors most likely to react to price changes? How can a firm anticipate the likely reactions of its competitors?

Competitors are most likely to react when the number of firms involved is small, when the product is uniform, and when the buyers are well informed.

If the firm faces one large competitor, and if the competitor tends to react in a set way to price changes, that reaction can be easily anticipated. But if the competitor treats each price change as a fresh challenge and reacts according to its self-interest, the company will have to figure out just what makes up the competitor's self-interest at the time.

(Moderate; pp. 384-385)

129. Do states regulate pricing activities when the federal government does not?

The answer is yes. The most important pieces of federal legislation affecting prices are the Sherman, Clayton, and Robinson-Patman Acts, initially adopted to curb the formation of monopolies and to regulate business practices that might unfairly restrain trade. Because these statutes can be applied only to interstate commerce, some states have adopted similar provisions for companies that operate locally.

Examples include pricing within channel levels and pricing across channel levels.

(Moderate; p. 387)

130. What is a typical federal government reaction to price fixing?

Price fixing is illegal *per se*—that is, the government does not accept any excuses for price fixing. Companies found guilty of such practices can receive heavy fines and sanctions.

(Easy; p. 387)

131. Explain the factors involved in setting international pricing.

In some cases, a company can set a uniform worldwide price. However, most companies adjust their prices to reflect local market conditions and cost considerations. A firm must consider economic conditions, competitive situations, laws and regulations, and development of the wholesaling and retailing system.

Consumer perceptions and preferences also may vary from country to country, calling for different prices. The company may have different marketing objectives in various world markets. Costs play an important role in setting international prices. Management must prepare for price escalation that may result from the differences in selling strategies or market conditions. The additional costs of product modifications, shipping and insurance, import tariffs and taxes, exchange-rate fluctuations, and physical distributions must all be factored into the "price."

(Challenging; pp. 382-383)