MANAGERIAL ECONOMICS

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Lecture No - 40: Product Pricing and A Summing Up
Session Outline

Product Pricing
A summing up for the course
Peak load pricing

Kind of price discrimination in which consumers are segregated on the basis of time segments - different prices are charged for the same facility used at different point of time by the same customers.

Time zone – Peak load and Off peak load
Peak load pricing

Peak load – higher price/ Mark up pricing
Off peak load- lower price/ Incremental pricing
Sealed Bid Pricing Strategy

Separate market – buyers do not prefer open price – demands sealed price from seller in sealed form (tender)

Limited Monopsony
Sealed Bid Pricing Strategy

Pricing – Mark up strategy
Margin is uncertain.
Retail Pricing

Producer – Wholesaler – Retailer

Maximum Retail Price (MRP) – retailer’s commission
Retail Pricing

Techniques

Everyday Low Pricing (EDLP) – a low price is charged throughout the year and no special discount.
Example – Walmart, Big Bazar
Retail Pricing

Techniques

High Low Pricing – high prices on regular basis, coupled with discount to promotion the product.

Adopted by firms which have high overhead expenses and cannot afford low pricing.

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Retail Pricing

Techniques

Value Pricing
Administered Pricing

Administered prices initially related to prices charged by monopolist and therefore determined by considerations other than marginal cost.

Prices are those that are statutorily determined by government.
Export Pricing

International trade
Export price – income level, taste and preferences of the consumers, exchange rate, tariff and custom duties. Identify all competitors who supply the same product in the same market.
A Summing Up
Module 1 – Introduction to Managerial Economics
Introducing Economics and Managerial Economics

Economics and Managerial Decision

Basic concepts used in economics:
- Economic rationality
- Opportunity cost
- Concept of profit

Marginal and Incremental analysis
Basic tools for economic analysis and Optimization Technique
- Functional relationship between the economic variables
  Slope and its use in economic analysis
  Derivatives of various functions
Basic tools for economic analysis and Optimization technique
Constrained optimization
- Substitution technique
- Lagrangian multiplier method
Basic tools for economic analysis and Optimization technique
Regression technique
- Estimating the error term
- Ordinary least square methods
- Testing the significance of estimated parameters
- Test of goodness of fit.
Module -2 : Theory Of Demand
Demand and Supply

• Defining Demand
• Law of Demand
• Demand Schedule/Demand Curve/Demand Function
• Factors affecting Demand
• Change/Shift in the Demand
Demand and Supply

- Supply/ Law of Supply
- Supply Schedule/Supply Curve/Supply Function
- Factors affecting Supply
- Change/Shift in the Supply
- Market Equilibrium
Elasticity of Demand

• Price elasticity of demand
• Income elasticity of demand
• Cross price elasticity of demand
Consumer Behaviour

• Utility analysis
• Indifference curve approach
• Law of diminishing marginal utility
Consumer Behaviour

- Budget line and Consumer equilibrium
- Law of Equi Marginal utility
- Price, income and substitution effect
- Consumer Surplus
Demand forecasting

- Subjective methods
- Quantitative methods
Module 3: Theory of Production and Cost
Theory of Production

Defining Input, Output, Production
Production function
Short Run Production Function
Law of Diminishing Return
Theory of Production

Long Run Production Analysis: Return to Scale
Isoquants, Isocost
Choice of input combination
Expansion path
Economic Region of Production
Theory of Cost

- Production cost
- Types of Cost: Accounting/Economic Analysis
- Cost – Output Relationship
- Short run cost Analysis
Theory of Cost

- The Long-Run Cost-Output Relations
- Break-Even Analysis: Linear Cost and Revenue Functions.
- Break-Even Analysis: Non-Linear Cost and Revenue Function
Theory of Cost

- Contribution Analysis
- Learning Curve
- Application of Cost Analysis
- Cost Function: Empirical Determination
- Economies of Scale
Module 4: Theory of Market
Perfect Competition

- Features of Perfect Competition
- Demand and Revenue of a firm
- Short run Equilibrium
- Market supply and firm’s supply analysis
Perfect Competition

- Long Run Profit Maximization
- Long Run Supply Analysis
- Application in Real world
Monopoly

- Feature of Monopoly
- Reasons and Types of Monopoly
- Demand and Marginal Revenue for a monopoly firm
- Price and Output Decision in the short run/Long run
- Supply Curve of a Monopoly Firm
- Measures of Monopoly power
Monopoly

- Price and output decision of Multi plant monopoly
- Monopsony
- Bilateral monopoly
- Monopoly – real world evidence
- Comparison between monopoly and perfect competition
- Measures of Monopoly power
Monopolistic Competition

- Determination of price and output in the short/long run
- Non Price Competition
Oligopoly

- Feature of oligopoly
- Non collusive model
- Collusive model
Application of Game theory in Economics

- Assumptions
- Structure of the Game
- Types of Game
- Strategies of the Game
- Nash Equilibrium
- Prisoner’s dilemma
- Market entry, Cournot and Stackelberg’s model
Pricing Practices

- Multi Product Pricing
- Price discrimination
Pricing Practices

- Pricing on the basis of cost
- Pricing on the basis of competition
- Pricing on the basis of firm’s goal
- Pricing on the basis of product life cycle
- Cyclical pricing
- Multi product pricing
- Ramsay and transfer pricing
End Note

This course is an attempt to provide the understanding of basic economic theories, principles and concepts and their application on managerial business decision problem.