

Exam

Name _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) _____ is the amount of money charged for a product or service. 1) _____
A) Salary
B) Price
C) Experience curve
D) Wage
E) Demand curve
- 2) Price is the only element in the marketing mix that produces _____. 2) _____
A) stability
B) outfixed costs
C) variable costs
D) expenses
E) revenue
- 3) _____ is an important element in the marketing mix. It is the only element that does not represent costs. 3) _____
A) Product quality leadership
B) The target market
C) Price
D) Market share leadership
E) Current profit maximization
- 4) Consumer perceptions of the product's value set the _____ for prices. 4) _____
A) ceiling
B) demand curve
C) floor
D) image
E) variable cost
- 5) Product costs set a(n) _____ to a product's price. 5) _____
A) experience curve
B) floor
C) break-even cost
D) demand curve
E) ceiling
- 6) Which of the following is a customer-oriented approach to pricing? 6) _____
A) value-based pricing
B) sealed-bid pricing
C) target profit pricing
D) break-even pricing
E) cost-plus pricing

- 7) _____ uses buyers' perceptions of what a product is worth, not the seller's cost, as the key to pricing. 7) _____
- A) Variable cost
 - B) Value-based pricing
 - C) Value-added pricing
 - D) Price elasticity
 - E) Product image
- 8) In _____, price is considered along with the other marketing mix variables before the marketing program is set. 8) _____
- A) price elasticity
 - B) value-based pricing
 - C) building the marketing mix
 - D) cost-based pricing
 - E) variable costs
- 9) Value-based pricing is the reverse process of _____. 9) _____
- A) cost-based pricing
 - B) value-added pricing
 - C) cost-plus pricing
 - D) good-value pricing
 - E) variable cost pricing
- 10) With _____, price is set to match consumers' perceptions of product value. 10) _____
- A) cost-based pricing
 - B) every day low pricing
 - C) cost-plus pricing
 - D) value-based pricing
 - E) variable cost pricing
- 11) Measuring _____ can be difficult. A company might conduct surveys or experiments to test this in the different products they offer. 11) _____
- A) perceived value
 - B) quantity supplied
 - C) the demand curve
 - D) price elasticity
 - E) break-even pricing
- 12) Underpriced products sell very well, but they produce less revenue than they would have if price were raised to the _____ level. 12) _____
- A) variable
 - B) price-floor
 - C) demand curve
 - D) perceived
 - E) value-based

- 13) If a seller charges _____ than the buyer's perceived value, the company's sales will _____. 13) _____
A) less; increase
B) less; suffer
C) more; suffer
D) more; benefit
E) none of the above
- 14) Some companies have adopted a _____ strategy, offering just the right combination of quality and good service at a fair price. 14) _____
A) low-price image
B) break-even
C) good-value pricing
D) value-based pricing
E) cost-plus pricing
- 15) Wal-Mart is famous for using what important type of value pricing? 15) _____
A) everyday low pricing
B) penetration pricing
C) competition-based pricing
D) cost-plus pricing
E) break-even pricing
- 16) _____ involves charging a constant, everyday low price with few or no temporary price discounts. 16) _____
A) EDLP
B) Cost-plus pricing
C) High-low pricing
D) Target pricing
E) Penetration pricing
- 17) _____ involves attaching features and services to differentiate a company's offers and to support charging higher prices. 17) _____
A) Pricing-down
B) Break-even pricing
C) Target pricing
D) Value-added pricing
E) Cost-plus pricing
- 18) _____ is a company's power to escape price competition and to justify higher prices and margins. 18) _____
A) Target cost
B) Variable cost
C) Fixed cost
D) Unit cost
E) Pricing power

- 19) To maintain and increase a company's _____, a firm must retain or build the value of its marketing offer. 19) _____
A) target cost
B) variable cost
C) image
D) fixed cost
E) pricing power
- 20) When there is price competition, many companies adopt _____ rather than cutting prices to match competitors. 20) _____
A) fixed costs
B) pricing power
C) image pricing
D) value-added strategies
E) price elasticity
- 21) Ryanair offers free flights to a quarter of its customers and rock-bottom prices to many of its other customers. Ryanair then charges for all extra services, such as baggage handling and in-flight refreshments. Which of the following best describes Ryanair's pricing method? 21) _____
A) high-low pricing
B) low-cost pricing
C) image pricing
D) value-added pricing
E) cost-plus pricing
- 22) _____ pricing involves setting prices based on the costs for producing, distributing, and selling the product plus a fair rate of return for the company's efforts and risks. 22) _____
A) Skimming
B) Cost-based
C) Variable
D) Value-based
E) Fixed cost
- 23) Fixed costs _____ as the number of units produced increases. 23) _____
A) divide in half
B) decrease
C) increase
D) remain the same
E) increase at a diminishing rate
- 24) Costs that do not vary with production or sales level are referred to as _____. 24) _____
A) variable costs
B) unit costs
C) fixed costs
D) total costs
E) target costs

- 25) Rent, electricity and executive salaries are examples of _____. 25) _____
 A) total costs
 B) marketing costs
 C) variable costs
 D) accumulated costs
 E) fixed costs
- 26) Costs that vary directly with the level of production are referred to as _____. 26) _____
 A) total costs
 B) variable costs
 C) fixed costs
 D) target costs
 E) unit costs
- 27) _____ are the sum of the _____ and _____ for any given level of production. 27) _____
 A) Break-even costs; fixed; total costs
 B) Fixed costs; total; variable costs
 C) Total costs; fixed; variable costs
 D) Fixed costs; variable; total costs
 E) Variable costs; fixed; total costs
- 28) SRAC is the acronym for which concept related to costs at different levels of production? 28) _____
 A) strategic revenues and costs
 B) short-run average cost
 C) strategic rights and company
 D) short-run accounting costs
 E) strategic reasoning and costs
- 29) As production workers become better organized and more familiar with equipment, the average cost per unit decreases. This is called the _____. 29) _____
 A) short-run average cost curve
 B) experience curve
 C) marginal utility
 D) long-run average cost curve
 E) demand curve
- 30) With a higher volume of product, most companies can expect to _____. 30) _____
 A) see average costs increase
 B) gain economies of scale
 C) become less efficient
 D) have a straight, horizontal learning curve
 E) find competitors using the experience curve strategically
- 31) The experience curve reveals that _____. 31) _____
 A) customers will pay more to experienced manufacturers
 B) there really is no such thing as economies of scale
 C) the average cost increases with accumulated production experience
 D) repetition in production diminishes efficiency
 E) repetition in production lowers costs

- 32) When a downward-sloping experience curve exists, a company should usually _____ the selling price of that product in order to bring in higher revenues. 32) _____
- A) be flexible about
 - B) increase
 - C) decrease
 - D) not alter
 - E) greatly increase
- 33) Which of the following is a risk a company takes when building a strategy around the experience curve? 33) _____
- A) Competitors will likely not be able to meet the company's price cuts.
 - B) Aggressive pricing may give the product a cheap image, causing customers to lose interest.
 - C) The method does not take competitors' prices into account.
 - D) The method may cause consumers to become frustrated with changing prices.
 - E) Existing technologies are likely to become more expensive as the company expands.
- 34) A company building its pricing strategy around the experience curve would be likely to _____. 34) _____
- A) differentiate its products as superior
 - B) price its products low
 - C) price its products high
 - D) engage in break-even pricing
 - E) compete on anything but price
- 35) The company designs what it considers to be a good product, totals the expenses of making the product, and sets a price that adds a standard mark-up to the cost of the product. This approach to pricing is called _____. 35) _____
- A) fixed cost pricing
 - B) value-based pricing
 - C) skimming pricing
 - D) cost-plus pricing
 - E) variable pricing
- 36) Lawyers, accountants, and other professionals typically price by adding a standard markup for profit. This is known as _____. 36) _____
- A) value-based pricing
 - B) cost-plus pricing
 - C) break-even price
 - D) penetration pricing
 - E) variable costs
- 37) The simplest pricing method is _____. 37) _____
- A) cost-plus pricing
 - B) target profit pricing
 - C) break-even analysis
 - D) going-rate and sealed-bid pricing
 - E) value-based pricing

- 38) Which of the following is a reason why markup pricing is NOT practical? 38) _____
- A) Sellers earn a fair return on their investment.
 - B) By tying the price to cost, sellers simplify pricing.
 - C) This method ignores demand.
 - D) With a standard markup, consumers know when they are being overcharged.
 - E) When all firms in the industry use this pricing method, prices tend to be similar.
- 39) One reason _____ remains popular is that sellers are more certain about costs than about demand. 39) _____
- A) penetration pricing
 - B) variable pricing
 - C) elasticity pricing
 - D) markup pricing
 - E) inelasticity pricing
- 40) Price competition is minimized when all firms in an industry use which pricing method? 40) _____
- A) elasticity pricing
 - B) variable pricing
 - C) value-added pricing
 - D) markup pricing
 - E) value-based pricing
- 41) 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. 41) _____
- A) penetration
 - B) inelasticity
 - C) markup
 - D) elasticity
 - E) variable
- 42) Which of the following is a cost-based approach to pricing? 42) _____
- A) going-rate pricing
 - B) good value pricing
 - C) EDLP
 - D) target profit pricing
 - E) value-based pricing
- 43) Break-even pricing, or a variation called _____, is when the firm tries to determine the price at which it will break even or make the profit it is seeking. 43) _____
- A) value-based pricing
 - B) target profit pricing
 - C) competition-based pricing
 - D) fixed cost pricing
 - E) customer-based pricing

- 44) Target profit pricing uses the concept of a _____, which shows the total cost and total revenue expected at different sales volume levels. 44) _____
A) competition-based chart
B) break-even chart
C) unit cost
D) demand-curve
E) value-based chart
- 45) The break-even volume is the point at which _____. 45) _____
A) a firm's profit goal is reached
B) demand equals supply
C) the company can pay all of its long-term debt
D) the production of one more unit will not increase profit
E) the total revenue and total costs lines intersect
- 46) _____ pricing works only if that price actually brings in the expected level of sales. 46) _____
A) Markup
B) Target profit
C) Elasticity
D) Variable
E) Inelasticity
- 47) Which of the following statements about break-even analysis is true? 47) _____
A) It determines the amount of retained earnings a company will have during an accounting period.
B) It is calculated using variable costs, the unit price, and fixed costs.
C) It is used to determine how much production experience a company must have to achieve desired efficiencies.
D) It is a technique used to calculate fixed costs.
E) It is a technique marketers use to examine the relationship between supply and demand.
- 48) As a manufacturer increases price, the _____ drops. 48) _____
A) total cost
B) cost-plus pricing
C) sales
D) target
E) break-even volume
- 49) Which of the following is an external factor that affects pricing decisions? 49) _____
A) competition
B) research and development requirements
C) the salaries of production management
D) funds expensed to clean production equipment
E) the salaries of finance management

- 50) _____ that influence pricing decisions include the nature of the market and demand and competitors' prices. 50) _____
A) External factors
B) Internal factors
C) Target factors
D) Elasticity factors
E) Domestic factors
- 51) Companies may set prices low for which of the following reasons EXCEPT _____. 51) _____
A) to match a competitor
B) to prevent competition from entering the market
C) to prepare for an easy exit from a market
D) to create excitement for a product
E) to stabilize the market
- 52) In order to form a consistent and effective integrated marketing program, price decisions should be coordinated with each of the following EXCEPT _____. 52) _____
A) product design
B) competitors' prices
C) promotion decisions
D) distribution
E) marketing objectives
- 53) With target costing, marketers will first _____ and then _____. 53) _____
A) use skimming pricing; penetrating pricing
B) design the product; determine its cost
C) build the marketing mix; identify the target market
D) identify the target market; build the marketing mix
E) determine a selling price; target costs to ensure that the price is met
- 54) Price setting is usually determined by _____ in small companies. 54) _____
A) divisional managers
B) marketing departments
C) top management
D) sales departments
E) cross-functional teams
- 55) Price setting is usually determined by _____ in large companies. 55) _____
A) pricing departments
B) top management
C) finance officers
D) divisional managers
E) brand managers
- 56) In industrial markets, _____ typically has the final say in setting the pricing objectives and policies of a company. 56) _____
A) the pricing department
B) top management
C) the sales manager
D) the finance manager
E) the production manager

- 57) In industries in which pricing is a key factor, _____ often set the best prices or help others in setting them. 57) _____
- A) production managers
 - B) finance managers
 - C) sales managers
 - D) pricing departments
 - E) top managers
- 58) Under _____, the market consists of many buyers and sellers trading in a uniform commodity such as wheat, copper, or financial securities. 58) _____
- A) oligopolistic competition
 - B) monopolistic competition
 - C) pure competition
 - D) a pure monopoly
 - E) anti-trust agreements
- 59) Under _____, the market consists of many buyers and sellers who trade over a range of prices rather than a single market price. 59) _____
- A) pure monopoly
 - B) oligopolistic competition
 - C) socialism
 - D) monopolistic competition
 - E) pure competition
- 60) Under _____, the market consists of a few sellers who are highly sensitive to each other's pricing and marketing strategies. 60) _____
- A) pure competition
 - B) oligopolistic competition
 - C) monopolistic competition
 - D) pure monopoly
 - E) capitalism
- 61) 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. Which of the following is NOT one of those reasons? 61) _____
- A) They want to encourage government regulations.
 - B) They don't want to attract competition.
 - C) They want to please a large group of consumers.
 - D) They have a fear of government regulation.
 - E) They want to penetrate the market faster with a low price.
- 62) The relationship between the price charged and the resulting demand level can be shown as the _____. 62) _____
- A) target cost
 - B) break-even pricing
 - C) experience curve
 - D) variable cost
 - E) demand curve

- 63) Consumers usually perceive higher-priced products as _____. 63) _____
- A) having cost-based prices
 - B) having high profit margins
 - C) being in the introductory stage of the product life cycle
 - D) out of reach for most people
 - E) having high quality
- 64) Why do marketers consider prestige goods to be an exception to the typical demand curve? 64) _____
- A) The demand curve for prestige goods slopes downward and to the right.
 - B) Increasing the price of prestige goods can make them seem more desirable.
 - C) Customers are more aware of any price changes to prestige goods.
 - D) Prestige products such as diamonds, sapphires, and emeralds are nonrenewable resources.
 - E) Demand for prestige goods often is greater than supply.
- 65) Which of the following is true about the demand curve? 65) _____
- A) It is used to illustrate the effect of price on the quantity supplied.
 - B) It usually slopes upward and to the right.
 - C) It shows the relationship between product demand and product price.
 - D) It is always graphically depicted by a straight line.
 - E) It shows the quantity of product customers will buy in a market during a period of time even if other factors change.
- 66) When Gibson Guitar Corporation, long known for its high quality instruments, lowered its prices to compete more effectively with Japanese rivals, the company sold fewer guitars. Which of the following best explains this? 66) _____
- A) The sound of the Gibson guitar was not as good as the Japanese guitars.
 - B) The Gibson guitars were not as well made as the Japanese guitars.
 - C) Customers did not distinguish the superiority of the Gibson guitar when it was at a lower price.
 - D) The market was already flooded with guitars.
 - E) Customers had come to expect a higher price for a Gibson guitar.
- 67) _____ describes how responsive demand will be to a change in price. 67) _____
- A) Target costing
 - B) Price elasticity
 - C) Supply
 - D) Break-even pricing
 - E) The demand curve
- 68) If demand hardly changes with a small change in price, we say the demand is _____. 68) _____
- A) inelastic
 - B) variable
 - C) market penetrating
 - D) at break-even pricing
 - E) value-based

- 69) If demand changes greatly with a small change in price, we say the demand is _____. 69) _____
A) value-based
B) elastic
C) inelastic
D) fixed
E) variable
- 70) Price elasticity of demand is _____ divided by _____. 70) _____
A) the going price; the asking price
B) demand; price
C) percent change in price; percent change in quantity demanded
D) percent change in quantity demanded; percent change in price
E) none of the above
- 71) Buyers are less price sensitive in all of the following situations EXCEPT _____. 71) _____
A) when the product they are buying is in high demand
B) when the total expenditure for a product is high relative to their income
C) when the product is a specialty product
D) when the product they are buying is unique
E) when substitute products are hard to find
- 72) The less _____ the demand, the _____ it pays for the seller to raise the price. 72) _____
A) determined; less
B) elastic; more
C) constant; more
D) inelastic; more
E) elastic; less
- 73) Each of the following economic factors can have a strong impact on a firm's pricing strategy EXCEPT _____. 73) _____
A) inflation
B) an economic boom
C) an economic recession
D) interest rates
E) the reseller's reaction to price changes
- 74) A company should set prices that will allow _____ to receive a fair profit. 74) _____
A) resellers
B) producers
C) competitors
D) consumers
E) the elderly
- 75) When companies set prices, the government and social concerns are two _____ affecting pricing decisions. 75) _____
A) economic conditions
B) external factors
C) temporary influences
D) internal factors
E) demand curves

- 76) Amos Zook, an Amish farmer, sells organically grown produce. Often he will trade some of his produce for dairy products produced by other Amish farmers. The sum of the values that others exchange is called a _____. 76) _____
- A) cost-plus price
 - B) price
 - C) dynamic price
 - D) penetration price
 - E) common value price
- 77) Trader Joe's offers an assortment of exclusive gourmet products at impossibly low prices. These prices are not limited-time offers or special discounts. Instead, they reflect Trader Joe's _____ strategy. 77) _____
- A) cost-based pricing
 - B) cost-plus pricing
 - C) everyday low pricing
 - D) value-based pricing
 - E) dynamic pricing
- 78) Jimmy's Hardware, an independent local retailer, is losing business to Wal-Mart. This is most likely because he cannot match Wal-Mart's pricing strategy of _____. 78) _____
- A) skimming pricing
 - B) EDLP
 - C) EFGF
 - D) negotiated pricing
 - E) fixed prices
- 79) When McDonald's and other fast food restaurants offer "value menu" items at surprisingly low prices, they are using _____. 79) _____
- A) bundling
 - B) cost-plus pricing
 - C) target profit pricing
 - D) break-even pricing
 - E) value pricing
- 80) Consumers who have less time and patience to spend watching for supermarket specials and clipping coupons would most likely prefer _____. 80) _____
- A) break-even pricing
 - B) high-low pricing
 - C) EDLP
 - D) variable pricing
 - E) value-based pricing
- 81) Xbox 360 decides to add a free subscription to XBOX magazine with every game bought in an effort to differentiate its offering from PS3 games. This is an example of _____. 81) _____
- A) add-on pricing
 - B) product-support pricing
 - C) good-value pricing
 - D) value-added pricing
 - E) cost-based pricing

- 82) The long-run average cost curve (LRAC) helps the producer understand which of the following? 82) _____
 A) It shows how large a business should be, to be most efficient.
 B) It demonstrates the influence of external factors.
 C) It shows how pricing should be customer-driven.
 D) It shows how competitors arrive at their prices.
 E) It demonstrates how break-even analysis should work.
- 83) Assume a manufacturer with fixed costs of \$100,000, a variable cost of \$10, and expected sales of 50,000 units wants to earn a 20-percent markup on sales. What is the manufacturer's markup price? 83) _____
 A) \$14 B) \$18.50 C) \$150 D) \$15 E) \$18
- 84) General Motors prices its automobiles to achieve a 15 to 20 percent profit on its investment. This approach is called _____. 84) _____
 A) target-profit pricing
 B) cost-plus pricing
 C) value-based pricing
 D) low-price image
 E) going-rate pricing
- 85) A company faces fixed costs of \$100,000 and variable costs of \$8.00/unit. They plan to directly sell their product to the market for \$12.00. How many units must they produce and sell to break even? 85) _____
 A) 50,000 B) 25,000 C) 40,000 D) 20,000 E) 25,000
- 86) Ecstasy Pharmaceuticals faces fixed costs with their new drug of \$1,000,000. The company sells the drug in bottles of 50 pills for \$10.00. They estimate that they must sell 200,000 bottles to break even. What is the total cost to produce a bottle of 50 pills? 86) _____
 A) \$2.50 B) \$8.00 C) \$5.00 D) \$6.00 E) \$7.50
- 87) A manufacturer is trying to determine its break-even volume. With fixed costs of \$100,000, a variable cost of \$10, and expected sales of 50,000 units, what should the manufacturer's unit cost be to break even? 87) _____
 A) \$10 B) \$12 C) \$20 D) \$16 E) \$22
- 88) As a manufacturer decreases price, _____ volume increases. 88) _____
 A) sales
 B) target
 C) break-even
 D) total cost
 E) cost-plus pricing
- 89) P&G surveyed the market and identified an unserved segment of the electric toothbrush market. Using these results, they created Spinbrush. The unorthodox order of this marketing mix decision is an example of _____. 89) _____
 A) cost-plus pricing
 B) target costing
 C) value-based pricing
 D) penetration pricing
 E) competition-based pricing

- 90) PoolPak produces climate-control systems for large swimming pools. The company's customers are more concerned about service support for maintaining a system than its initial price. PoolPak may use this knowledge to become more competitive through _____. 90) _____
- A) value pricing
 - B) cost-plus pricing
 - C) a nonprice position
 - D) skimming pricing
 - E) target costing
- 91) 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. Green Mountain Power has the firm belief that even kilowatt-hours can be _____. 91) _____
- A) cost-plus priced
 - B) experience-curved
 - C) differentiated
 - D) value-based priced
 - E) a demand curve
- 92) In Vin del Mar, Chile, there are a dozen stores specializing in selling the same quality of seafood products on one street. An individual store dare not charge more than the going price without the risk of losing business to the other stores that are selling the fish at a common price. This is an example of what type of market? 92) _____
- A) pure monopoly
 - B) socialist
 - C) pure competition
 - D) oligopolistic competition
 - E) monopolistic competition
- 93) Ascot Tires has decided to decrease its prices. The company can expect that _____ for their product will increase. 93) _____
- A) competition
 - B) cost-plus pricing
 - C) the experience curve
 - D) demand
 - E) value-based pricing
- 94) If the Canon Camera Company follows a high-price, high-margin strategy, what will competitors such as Nikon, Minolta, and Pentax most likely do? 94) _____
- A) They will want to compete against Canon.
 - B) They will go out of business.
 - C) They will advertise less.
 - D) They will bundle their products.
 - E) They will seek new market segments.

95) If Canon follows a low-price, low-margin strategy for a product, what impact will it have on competition? 95) _____
A) They will advertise less.
B) They will bundle their products.
C) They will advertise more.
D) They will want to compete against Canon.
E) They will not be able to compete or may leave the market.

96) Companies are fortunate to have demand that is more _____ because they may be able to set higher prices. 96) _____
A) internal B) elastic C) fixed D) inelastic E) external

97) If demand falls by 1 percent when price is increased by 2 percent, then _____. 97) _____
A) competition is strong
B) a pure monopoly is in place
C) elasticity is $-1/2$
D) demand is elastic
E) buyers are not price sensitive

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

98) When faced with price competition cutting prices is often not the best answer. 98) _____

99) Prices have a direct impact on a company's bottom line. 99) _____

100) Demand and consumer value perceptions set the floor for prices. 100) _____

101) Product costs set a floor to the price; consumer perceptions of the product's value set the ceiling. 101) _____

102) Value-based pricing is being used when costs vary directly with the level of product. 102) _____

103) Value-based pricing uses the company's perception of value. 103) _____

104) Value-based pricing is the reverse of cost-based pricing. 104) _____

105) Using value-based pricing, a marketer would not design a product and marketing program before setting the price. 105) _____

106) EDLP is very similar to high-low pricing. 106) _____

107) Overhead cost is another term for fixed cost. 107) _____

108) Cost-based pricing relies on consumer perception of value to drive pricing. 108) _____

109) Average unit cost increases with accumulated production experience. 109) _____

110) An upward-sloping experience curve is beneficial for a company. 110) _____

- 111) The simplest pricing method is cost-plus pricing, which involves adding a standard markup to the cost of the product. 111) _____
- 112) Markup pricing is popular because prices tend to be similar and price competition is thus minimized. 112) _____
- 113) Target profit pricing is used when a firm tries to determine the price at which it will break even or make the profit it is seeking. 113) _____
- 114) A break-even chart shows the total cost and total revenue expected at various sales volume levels. 114) _____
- 115) Environmental elements are categorized as external factors that affect pricing decisions. 115) _____
- 116) In a pure monopoly, the market consists of one seller. 116) _____
- 117) Nonregulated monopolies always charge the full price because they do not fear attracting competition. 117) _____
- 118) Marketers may learn a few simple rules that apply equally to all price-demand relationships. 118) _____
- 119) 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 lower the demand. 119) _____
- 120) If demand changes greatly with price, we say the demand is inelastic. 120) _____
- 121) The more elastic the demand, the more it pays for the seller to raise the price. 121) _____
- 122) Consumers will base their judgments of a product's value on the prices that competitors charge for similar products. 122) _____
- 123) With market-penetration pricing, the company makes fewer but more profitable sales. 123) _____
- 124) Dell used market-skimming pricing to enter the personal computer market, selling high-quality computer products through lower-cost direct channels. 124) _____
- 125) Quicken offers an entire line of financial management software, including Cash Manager, Home & Business, and Suite versions priced at \$39.99, \$99.99, and \$109.99, respectively. This is product line pricing. 125) _____
- 126) Trade-in allowances are most common in the automobile industry but are also given for other durable goods. 126) _____
- 127) Wherever possible, a company should consider ways to meet higher costs or demand by raising prices. 127) _____

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

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

- 129) Discuss the importance of consumer perceptions of value and costs to setting prices.
- 130) Explain how break-even analysis can be used for target profit pricing.
- 131) Identify and define the internal factors affecting a firm's pricing decisions.
- 132) Compare pure competition with oligopolistic competition.
- 133) Compare oligopolistic competition with a pure monopoly.
- 134) Describe what a demand curve is and explain how it helps businesses.
- 135) What does price elasticity reveal about a product?
- 136) The company must consider the impact its prices will have on resellers. Identify three ways the company can help resellers.
- 137) When setting prices, the company must consider its external environment. Describe four parts of the external environment and how they affect businesses.
- 138) Companies that market their products internationally must decide what prices to charge in the different countries in which they operate. In some cases, a company can set a uniform worldwide price. Discuss the factors that influence international pricing.

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

- 139) How important is price among the elements of the marketing mix? 139) _____
- 140) Why is price considered to be one of the most flexible elements of the marketing mix? 140) _____
- 141) Explain the concept of a price floor. 141) _____
- 142) Explain the concept of a price ceiling. 142) _____
- 143) What must a company using value-based pricing find out about its customers? 143) _____
- 144) Explain good-value pricing. 144) _____
- 145) What must a firm do to retain pricing power? 145) _____
- 146) What costs make up a product's total cost? 146) _____
- 147) Explain the significance of a downward-sloping experience curve. 147) _____
- 148) A marketer's fixed costs are \$400,000, the variable cost is \$16, and they expect the product to sell for \$24. What is their break-even point in units? 148) _____

- 149) A marketer's fixed costs are \$400,000, the variable cost is \$16, and they expect the product to sell for \$24. What is their break-even point in dollar sales? 149) _____
- 150) A marketer's fixed costs are \$400,000, the variable cost is \$16, and they expect their product to sell for \$24. If the marketer has sales of \$1,440,000, what is their profit on this product? 150) _____
- 151) Who typically sets prices in small companies? In large companies? 151) _____
- 152) Explain a pure monopoly. 152) _____
- 153) If demand is elastic, will sellers consider lowering their prices? Explain. 153) _____
- 154) The Bay sells women's clothing in separate departments differentiated by price: clothing found in the more expensive department is assumed to be of better quality. What aspect of psychological pricing does this reflect? 154) _____
- 155) Are pricing signals, such as signpost pricing and price-matching guarantees, really helpful hints, or are they just retailer ploys? 155) _____
- 156) What are some of the adverse effects of promotional pricing? 156) _____
- 157) How does uniform-delivered pricing differ from FOB pricing? 157) _____
- 158) What should a firm consider when deciding whether or not to respond to a price change by a competitor? 158) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

Refer to the scenario below to answer the following questions.

Alden Manufacturing produces small kitchen appliances—blenders, hand mixers, and electric skillets—under the brand name First Generation. Alden attempts to target newlyweds and first-time home buyers with this brand.

In considering that most young households have limited financial resources, Alden has attempted to engage in target costing. "In doing this," Milt Alden stated, "we have better control over keeping price right in line with customers."

Alden manufactures a three-speed blender, its top seller, and a five-speed blender. The hand mixers are manufactured in two styles—a small hand-held mixer with two rotating beaters and a similar style that comes with an optional stand and attached mixing bowl. Alden's temperature-controlled skillets are manufactured in one style with three colour options.

"Our product offerings are narrower," Milt Alden added, "but our line workers know each product like the back of their hands. This allows us to produce superior products while holding our prices low."

- 159) Milt Alden says that his line workers "know each product like the back of their hands," and that this knowledge helps the company keep its prices low. This indicates that Alden Manufacturing benefits from _____. 159) _____
- A) cost-based pricing
 - B) target profit pricing
 - C) value-based pricing
 - D) cost-plus pricing
 - E) the experience curve

- 160) Milt Alden uses a target costing strategy. Which of the following is he most likely to do in executing this strategy? 160) _____
- A) start with customer-value considerations
 - B) use a break-even chart to determine pricing
 - C) use everyday low pricing
 - D) start by determining the costs of a new product
 - E) base his price on competitors' prices
- 161) Alden household appliances had an initial lower price when first introduced to the market. This represents which new-product pricing strategy? 161) _____
- A) target profit pricing
 - B) market penetration
 - C) every day low pricing
 - D) cost-plus pricing
 - E) market skimming
- 162) If Alden were to add a ten-speed blender line and price this line at \$50 to \$60, the five-speed blender line at \$40 to \$50, and the three-speed blender line at \$30 to \$40, it would be practicing 162) _____
- A) product line pricing
 - B) market penetration
 - C) market skimming
 - D) optional-product pricing
 - E) captive-product pricing
- 163) Customers can purchase a set of smaller blender jars that work with any Alden blender. These accessories are priced using _____. 163) _____
- A) market skimming
 - B) product line pricing
 - C) optional-product pricing
 - D) captive-product pricing
 - E) market penetration
- 164) Alden Manufacturing sells low-priced hand mixers but makes money on rotating beaters, stands and bowls. This type of pricing is known as _____. 164) _____
- A) captive-product pricing
 - B) optional-product pricing
 - C) product line pricing
 - D) market skimming
 - E) market penetration
- 165) This Christmas, Alden will introduce a gift package that includes a blender, hand-mixer, stand, and bowl priced less than if these items were purchased separately. Shoppers will benefit from _____ pricing. 165) _____
- A) product line
 - B) adjustment
 - C) skimming
 - D) seasonal
 - E) product bundle

- 166) Alden is able to charge more for their household appliances when they are purchased at a higher-end department store such as The Bay because of the types of customers that shop there. In this case, Alden is benefiting from _____, a price adjustment strategy. 166) _____
- A) geographical pricing
 - B) psychological pricing
 - C) promotional pricing
 - D) dynamic pricing
 - E) segmented pricing
- 167) When Alden introduced its ten-speed blender it priced it much higher than any of its previous blenders so that customers would perceive it as a product of great quality, Which price adjustment strategy was Alden using? 167) _____
- A) geographical pricing
 - B) dynamic pricing
 - C) segmented pricing
 - D) psychological pricing
 - E) promotional pricing
- 168) If Alden raises the price on the handheld mixer by 2 percent and quantity demanded falls by 10 percent what is the price elasticity of demand? 168) _____
- A) -5 B) 12 C) 5 D) -12 E) -8

Answer Key

Testname: UNTITLED11

- 1) B
- 2) E
- 3) C
- 4) A
- 5) B
- 6) A
- 7) B
- 8) B
- 9) A
- 10) D
- 11) A
- 12) D
- 13) C
- 14) C
- 15) A
- 16) A
- 17) D
- 18) E
- 19) E
- 20) D
- 21) B
- 22) B
- 23) D
- 24) C
- 25) E
- 26) B
- 27) C
- 28) B
- 29) B
- 30) B
- 31) E
- 32) C
- 33) B
- 34) B
- 35) D
- 36) B
- 37) A
- 38) C
- 39) D
- 40) D
- 41) C
- 42) D
- 43) B
- 44) B
- 45) E
- 46) B
- 47) B
- 48) E
- 49) A
- 50) A

Answer Key

Testname: UNTITLED11

- 51) C
- 52) B
- 53) E
- 54) C
- 55) D
- 56) B
- 57) D
- 58) C
- 59) D
- 60) B
- 61) A
- 62) E
- 63) E
- 64) B
- 65) C
- 66) C
- 67) B
- 68) A
- 69) B
- 70) D
- 71) B
- 72) B
- 73) E
- 74) A
- 75) B
- 76) B
- 77) C
- 78) B
- 79) E
- 80) C
- 81) D
- 82) A
- 83) D
- 84) A
- 85) B
- 86) C
- 87) B
- 88) C
- 89) B
- 90) C
- 91) C
- 92) C
- 93) D
- 94) A
- 95) E
- 96) D
- 97) C
- 98) TRUE
- 99) TRUE
- 100) FALSE

Answer Key

Testname: UNTITLED11

- 101) TRUE
- 102) FALSE
- 103) FALSE
- 104) TRUE
- 105) TRUE
- 106) FALSE
- 107) TRUE
- 108) FALSE
- 109) FALSE
- 110) FALSE
- 111) TRUE
- 112) TRUE
- 113) TRUE
- 114) TRUE
- 115) TRUE
- 116) TRUE
- 117) FALSE
- 118) FALSE
- 119) TRUE
- 120) FALSE
- 121) FALSE
- 122) TRUE
- 123) FALSE
- 124) FALSE
- 125) TRUE
- 126) TRUE
- 127) FALSE
- 128) The pricing environment changes at a fast pace, and value-seeking customers have put increased pricing pressure on many companies. However, companies are often too quick to reduce prices in order to get a sale rather than convincing buyers that their products are worth a higher price. A company's pricing, in addition, is often too cost-oriented rather than customer-value oriented. Companies have prices that are not revised often enough to reflect market changes. Another common problem is pricing that does not take the rest of the marketing mix into account.
- 129) Customer perceptions of value set the upper limit for prices, and costs set the lower limit. However, in setting prices within these limits the company must then consider other internal and external factors. Internal factors affecting pricing include the company's overall marketing strategy, objectives, and marketing mix, as well as other organizational considerations. External factors include the nature of the market and demand, competitors' strategies and prices, and other environmental factors.
- 130) The firm determines the price at which it will break even. The firm can also add the target profit to the fixed costs and then determine the new, "break-even point," which now includes the target profit. Pricing decisions can be made by examining where the total revenue and total cost curves intersect on a break-even chart at different price points and sales volume.
- 131) The pricing strategy is largely determined by the company's target market and positioning objectives. Pricing decisions affect and are affected by product design, distribution, and promotion decisions. Costs set the floor for the company's price, which must cover all the costs of making and selling the product, plus a fair rate of return. In order to coordinate pricing goals and decisions, management must decide who within the organization is responsible for setting price.
- 132) Under 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. Under oligopolistic competition, the market consists of few sellers who are highly sensitive to each other's pricing and marketing strategies. The product can be uniform or nonuniform. There are few sellers because it is difficult for new sellers to enter the market. Each seller is alert to competitors' strategies and moves.

Answer Key

Testname: UNTITLED11

- 133) Under oligopolistic competition, the market consists of a few sellers who are highly sensitive to each other's pricing and marketing strategies. There are few sellers because it is difficult for new sellers to enter the market. Under a 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.
- 134) 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.
- 135) Price elasticity is a measure of the sensitivity of demand to changes in price. 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.
- 136) The company, first of all, should set prices that give resellers a fair profit. The company should also encourage their support. Finally, the company should help resellers to sell the product effectively.
- 137) Economic conditions affect both the costs of producing a product and consumer perceptions of the product's price and value. The company should encourage and support resellers and help them to sell the product effectively. The government, in the form of local, provincial, and federal laws, is another important influence on pricing decisions. Social concerns impact pricing, especially when a company's short-term sales, market share, and profit goals may have to be tempered by broader societal considerations.
- 138) Most companies adjust their prices to reflect local market conditions and cost considerations. The price that a company should charge in a specific country depends on many factors, including economic conditions, competitive situations, laws and regulations, and development of the wholesaling and retailing system. Consumer perceptions and preferences may also vary from country to country, calling for different prices. Or the company may have different marketing objectives in various world markets, which require changes in pricing strategy.
- 139) In recent decades, nonprice factors have gained increasing importance. However, price still remains one of the most important elements determining a firm's market share and profitability.
- 140) Price can be changed quickly.
- 141) A price floor is the lowest price charged at which the company still earns some profits.
- 142) A price ceiling is the highest price charged at which there is still some consumer demand.
- 143) They must determine the specific value that individual buyers assign to different competitive offers.
- 144) With good-value pricing, a marketer offers just the right combination of quality and good service at a fair price.
- 145) To retain pricing power, a firm must retain or build the value of its market offering.
- 146) Fixed costs and variable costs make up total cost.
- 147) Not only will the company's unit production cost fall, but it will fall faster if the company makes and sells more during a given time period.
- 148) The break-even point in units is 50,000 units.
- 149) The break-even point in dollar sales is \$1,200,000.
- 150) The profit is \$80,000.
- 151) Top management sets prices in small companies, whereas divisional or product line managers typically set prices in large companies.
- 152) The market consists of one seller that dominates the market.
- 153) Yes. A lower price will produce more needed revenue, as consumers will respond to the change in price and buy more.
- 154) This aspect of psychological pricing is reference prices—prices that buyers carry in their minds and refer to when looking at a given product. The reference price might be formed by noting current prices, remembering past prices, or assessing the buying situation.
- 155) These tactics certainly work for the retailer. For example, research shows that the word *sale* beside a price (even without actually varying the price) can increase demand by more than 50 percent. Careful buyers really can take advantage of such cues to find good buys. And if used properly, retailers can use such tactics to provide useful price information to their customers, building more solid customer relationships.

Answer Key

Testname: UNTITLED11

- 156) Used too frequently and copied by competitors, price promotions can create “deal-prone” customers who wait until brands go on sale before buying them. Constantly reduced prices can also erode a brand’s value in the eyes of customers. Marketers sometimes become addicted to promotional pricing, using price promotions as a quick fix instead of sweating through the difficult process of developing effective longer-term strategies for building their brands. The use of promotional pricing can also lead to industry price wars.
- 157) Uniform-delivered pricing is the opposite of FOB pricing. Here, the company charges the same price plus freight to all customers, regardless of their location. The freight charge is set at the average freight cost.
- 158) The firm needs to consider several issues: Why did the competitor change the price? Is the price change temporary or permanent? What will happen to the company’s market share and profits if it does not respond? Are other competitors going to respond? Besides these issues, the company must also consider its own situation and strategy and possible customer reactions to price changes.
- 159) E
- 160) A
- 161) B
- 162) A
- 163) C
- 164) A
- 165) E
- 166) E
- 167) D
- 168) A