



# 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.

**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.**