

Think Critically

1. Why is it important to determine pricing objectives before pricing goods and services?
 2. List three methods for determining the price to charge for a product.
 3. Which method would be the best for a housepainter to use to price services? Why?
 4. Name two strategies used in introductory pricing and provide an example of each.
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True or False

- _____ 1. The price is the actual amount a customer pays for a product or service.
 - _____ 2. Return on investment is the amount earned as a result of the investment and is expressed in fractions.
 - _____ 3. To determine the market share of a business, the total market for a product must be known.
 - _____ 4. Your market share rarely depends on the level of competition in your market.
 - _____ 5. Businesses can increase market share by networking with potential customers.
 - _____ 6. With cost-based pricing, the price is determined by using the wholesale cost of an item as the basis for the price charged.
 - _____ 7. Demand-based pricing is used only by businesses that are monopolies.
 - _____ 8. With competition-based pricing, the price charged is the same as the price charged by competitors.
 - _____ 9. When services are combined under one price, rather than making the customer pay for each individual part of the service, this is called price skimming.
 - _____ 10. Price lining involves offering different levels of prices for a specific category of product based on features and quality.
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Multiple Choice

- _____ 1. All of the following are price objectives except (a) increase profits, (b) minimize sales, (c) attract customers, (d) discourage competition.
 - _____ 2. Businesses should always set their prices (a) lower than their competitors' prices, (b) based on their product mix, (c) high enough to make a profit, (d) all of these.
 - _____ 3. The total market for a product must be known in order to determine (a) short-term marketing goals, (b) market share, (c) how to write a marketing plan, (d) medium-term goals.
 - _____ 4. Networking is (a) establishing informal ties with people who can help your business grow, (b) a way to increase market share, (c) attending gatherings that can give you good opportunities to meet potential customers, (d) all of these.
 - _____ 5. A business may set its prices for products or services using (a) competition-based pricing, (b) cost-based pricing, (c) demand-based pricing, (d) all of these.
 - _____ 6. With cost-based pricing, a price is determined by (a) finding out what competitors charge for the same item, (b) using the wholesale cost of an item, (c) how much customers are willing to pay, (d) analyzing customer need.
 - _____ 7. Which of the following pricing techniques is often used in the introductory stage of a product? (a) Penetration pricing, (b) Prestige pricing, (c) Trade discounts, (d) Markdown pricing.
 - _____ 8. If the terms of an invoice read "2/10, net 30," this means that (a) a 12 percent discount may be taken if the invoice is paid within 30 days, (b) a 2 percent discount may be taken if the invoice is paid within 10 days, (c) one-fifth of the invoice amount must be paid within 30 days, (d) none of these.
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Problem Solving

1. What is market share? How is it determined? How can a business increase its market share?

2. Explain how price is determined using each of the following methods:

Cost-based pricing:

Demand-based pricing:

Competition-based pricing: