Business Virtual Learning

HS/Marketing

April 21, 2020

LESSON TOPIC - PRICING PART 1

LESSON OBJECTIVES:

Students will:

1. Understand how supply and demand impact the way a company prices its products and services.
2. Understand how price is related to the value of products and services.
3. Understand the concept of elasticity of demand and how it affects pricing.

Instructions:

1. Read over the following slides and answer the questions as you go through.
2. Create a google doc with your answers or write them down on paper.

Price

Price is the value of money (or its equivalent) placed on a good or service. Usually expressed in monetary . However, an example of non-monetary is “bartering” where people trade one thing for another.

The key to pricing is understanding the value that buyers place on a product.

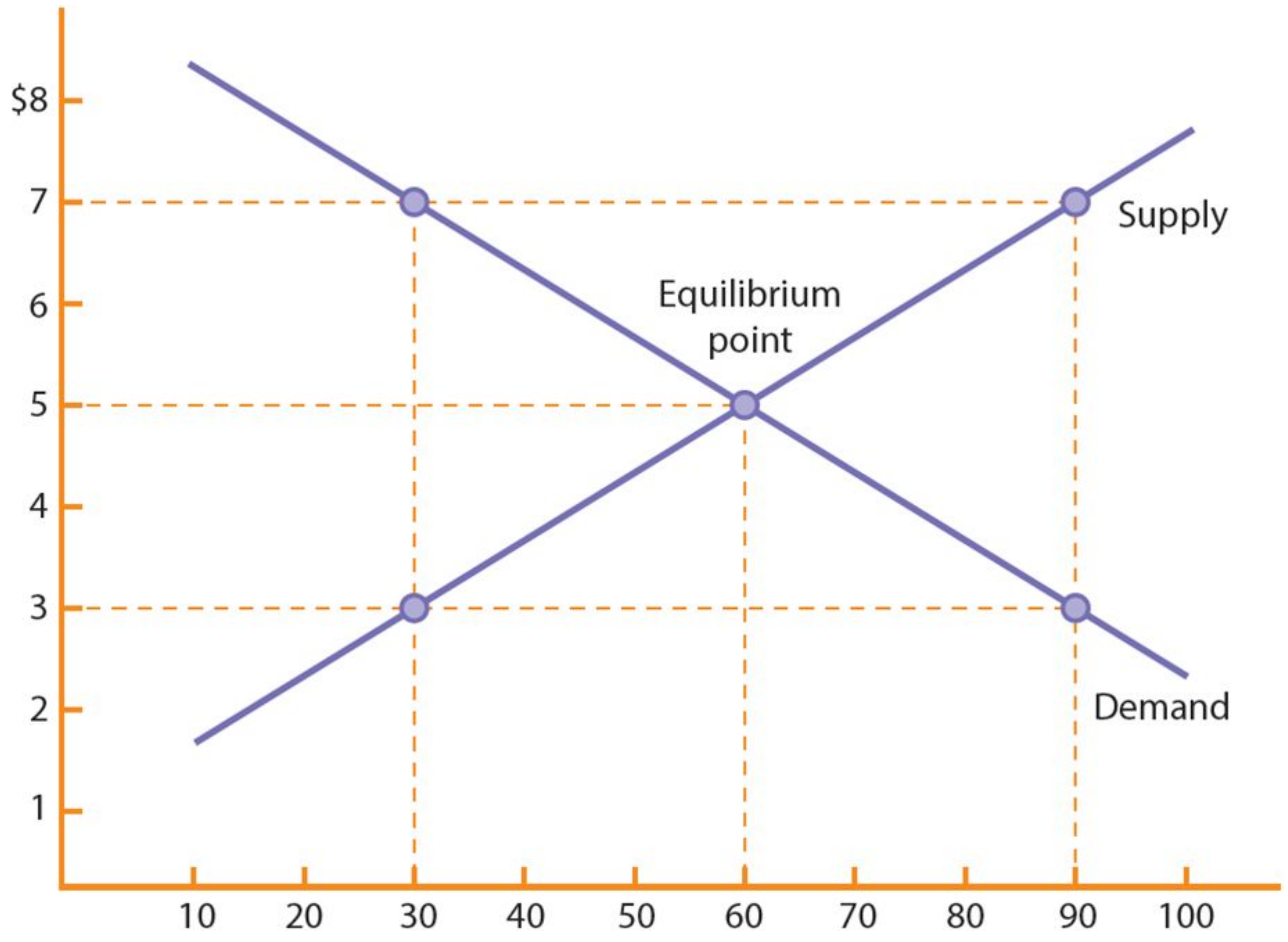
Question: Define price

Price as an Economic Concept

- Price helps allocate available resources among people. Going back to our economics unit - it's about supply and demand.
  - If there is a small quantity of a product or service but a very large demand, the price will usually be quite high.
  - On the other hand, if there is a very large supply of a product or if demand is low, the price will be low.

Question: What happens to the demand of a product when the price changes?

Visual example of how Supply and Demand affect Price



- At a price of $3, demand (90) is greater than supply (30).
- At a price of $7, supply (90) is greater than demand (30).
- At a price of $5, supply equals demand (60), and the market is in equilibrium.

Question: Define what equilibrium price is.

https://youtu.be/PSfqxg6DaUU

Price as an Economic Concept

- Economic Utility (Added value)
  - Form
  - Time
  - Place
  - **Possession**
  - Information

Question:
Explain how price relates to the possession utility.

Price as an Economic Concept

- **Elasticity of Demand** - refers to how sensitive the **demand** for a good or service is to changes in other economic variables, such as prices and consumer income.
  - With **inelastic demand (price change does not change demand)**, a price decrease will decrease total revenue.
  - With **elastic demand (price change DOES change demand)**, a price decrease will increase total revenue.

Questions: 1. Define elasticity of demand **2.** If the demand changes when price changes, is it elastic or inelastic?

Price as an Economic Concept

- Three things that make demand INELASTIC:
  - The product is a necessity
  - There is no substitute for it
  - The price change is small compared to income

1. What does it mean when the demand for a product is inelastic?
2. What are the 3 things that make the demand for a product inelastic?

Final question

With all that is happening in our world today because of the stay @ home orders right now, what do you think is going to happen, or is already happening, to the price of the following products? Using the economic concepts discussed in this lesson, explain why this is happening for each product.

- toilet paper
- new vehicles
- a meal at a restaurant
- furniture
- alcoholic items