

Chapter 5 and Chapter 6
Sample exam questions on Pricing

Understand what the definition of price means to customers

1. The key to successful pricing is to match the product with the consumer's perception of value.

TRUE

Successful pricing considers consumers' perceived value, since to ignore this might result in a price that is too high or too low.

Know the nature of demand curves

2. A demand curve shows the relationship between income and demand.

FALSE

A demand curve shows the relationship between price and the quantity demanded. It is how customers respond to different prices.

Know the definition and how to calculate price elasticity

3. Brands that have developed loyal customers have a higher price elasticity of demand.

FALSE

Brands with loyal customers have lower price elasticity of demand--in other words, demand will decrease more slowly as price goes up.. Higher elasticity implies higher sensitivity to changes in price.

Know the 5 C's of Pricing

4. In general, prices should not be based on costs because consumers make their purchase decisions based on perceived value, not the cost of production.

TRUE

Although cost is a consideration when setting prices, it should not be the only consideration. Prices set without considering perceived value are likely to be set too high or too low to match consumers' value perceptions.

5. Consumers judge the benefits the product delivers against the _____ necessary to obtain it.

- A. monetary cost
- B. profit
- C. variable cost
- D. total return
- E. sacrifice**

The perceived value of the product considers both the benefits and everything sacrificed to obtain the benefits.

6. If firms price their products too low, it may:

- A. result in lower costs.
- B. create a premium pricing effect.
- C. increase contribution per unit.
- D. result in inelastic demand.
- E.** signal poor quality.

7. Marketers can deliver high value through high or low prices, depending on:

- A. profit contribution per unit.
- B.** the bundle of benefits the product or service delivers.
- C. monopolistic competition.
- D. target return pricing that is greater than variable cost per unit.
- E. the income effect.

Value can be delivered at a variety of price points, as long as the benefits delivered match the price.

8. Christina owns and operates a shop that sells home furnishings. One of her vendors has just offered her a greatly reduced price for some traditional Christmas decorations, even though it is really too early to be thinking about holiday merchandise. One of the main pricing issues Christina will have to address as she considers the offer is:

- A.** whether the cost reduction will be low enough to cover the additional inventory costs she will have to incur.
- B. whether she can get an even lower price by waiting.
- C. whether the company is going out of business.
- D. whether this offer is legal.
- E. whether she should open a Christmas shop instead of her home furnishing store.

Seasonal discounts are additional reductions offered as an incentive to retailers to order merchandise in advance of the normal buying season. Retailers must weigh the benefits of the discount against the additional costs of carrying inventory for a longer time.

9. Unlike product, promotion, or place, price is the only part of the marketing mix:

- A. that offers the opportunity for an oligopoly.
- B. that is subject to gray market manipulation.
- C. that leads to competition.
- D.** that generates revenue.
- E. all of these.

Product, promotion, and place generate costs; price generates revenue.

10. Margaret has been invited to a fancy dinner party and wants to bring a good bottle of wine as a gift for the host. Since she does not know much about wine, she will likely use the price of the wines as:

- A. an indicator of quality.
- B. a reflection of status quo pricing.
- C. an indicator of the variety.
- D. a measure of scarcity.
- E. a measure of the income effect.

Price is often used as an indicator of quality, as in the saying, "You get what you pay for."

11. Which of the following is NOT one of the Five Cs of pricing?

- A. Customers.
- B. Channel members.
- C. Cost.
- D. Collaboration.
- E. Company objectives.

The 5 Cs of Pricing are Competition, Costs, Company objectives, Customers, and Channel Members.

12. What could go wrong if a firm's pricing strategy were NOT aligned with company objectives?

- A. The message and media in a promotional campaign could be inconsistent with the pricing strategy.
- B. Company growth objectives might not be supported.
- C. The channels selected might not be appropriate for the pricing levels established.
- D. Customers might be confused and select a competitor's product.
- E. All of these

All of these are dangers of failing to align the pricing strategy with company objectives. Remember the immediate goal of pricing may not be to maximize profit.

13. Gary is the marketing manager for an automobile dealership. His boss tells him the firm's primary goal is to increase their local market share from 15 to 30 percent. Gary's pricing strategy will focus on:

- A. increasing profits.
- B. increasing sales.
- C. decreasing competition.
- D. building customer satisfaction.
- E. all of these.

Gary's pricing strategy is focused on increasing sales to gain market share.

14. A _____ strategy involves accurately measuring all the factors needed to predict sales and profits at various price levels, so that the price level that produces the highest return can be chosen.

- A. sales orientation
- B. target profit
- C. target return
- D. status quo
- E. maximizing profits**

A maximizing profits strategy attempts to make the greatest possible profit, and will set price accordingly. A great deal of information is needed to make this determination.

15. When firms set prices similar to those of competitors, they are following a strategy of:

- A. me-too pricing.
- B. copycat pricing.
- C. competitive parity.**
- D. market-broadening pricing.
- E. industry-standard pricing.

A competitive parity strategy is a type of competitor-oriented strategy in which the firm sets prices similar to those of the competition.

16. Price elasticity of demand is defined as the:

- A. percentage change in quantity demanded divided by the percentage change in price.**
- B. percentage change in price divided by percentage change in quantity demanded.
- C. change in price divided by change in quantity demanded.
- D. change in quantity demanded divided by the change in price.
- E. change in quantity demanded multiplied by the change in price.

Price elasticity of demand is the ratio of percent change in quantity demanded and percent change in price.

17. Because market and operating conditions are all very similar, marketers' pricing strategies should be uniform.

FALSE

Market and operating conditions are very different from one target market to another, requiring different pricing strategies. The pricing strategy in the Home market and the Domestic market are very different because they are targeting very different customer segments!

Know the different types of pricing strategies for new products.

18. Cheryl wants to quickly establish a dominant market share for her new line of ergonomic pens. To do this, she will likely use a market penetration pricing strategy.

TRUE

A market penetration pricing strategy starts with a low price in order to capture market share

19. (p. 428) 3/10, n/30 means a 3 percent discount if paid in full within 10 days, or the net amount is due in 30 days.

TRUE

This is an example of a discount offered to businesses for early payment.

20. Yvonne estimates the average cost of her floral arrangements is \$14 regardless of whether she is doing 5 or 20 arrangements that day. She adds a standard markup to the \$14 estimate to determine her price. Yvonne is using a _____ pricing method.

- A. improvement value
- B. value-based
- C. everyday low pricing
- D. reference-based
- E. cost-based**

Yvonne is pricing solely based on costs, and so is using a cost-based method.

21. Firms using a _____ pricing method set their prices relative to what other firms are charging.

- A. improvement value
- B. value-based
- C. competitor-based**
- D. reference-based
- E. cost-based

Competitor-based pricing methods set prices relative to other firms.

22. Value-based pricing methods include approaches to setting prices that focus on the overall value of the product offering:

- A. when the product is produced.
- B. as recognized by competitors.
- C. as perceived by the consumer.**
- D. in order to minimize bundling charges.
- E. relative to production costs.

Value-based pricing methods consider the consumers' perceived value.

23. Odd prices:

- A.** suggest low quality.
- B. show the experience curve effect.
- C. are predatory prices.
- D. allow marketers to avoid having to do markdowns.
- E. are consistent with price discrimination.

Odd prices (prices that end in a 9) signal both low price and low quality to some consumers.

24. Pricing _____ products is especially challenging because little or nothing is known about consumers' perceptions of value.

- A. cost-based
- B. seasonal
- C. large-quantity
- D.** new-to-the-world
- E. zone pricing

New product pricing is very challenging because there is generally little data about consumer responses to different prices. In contrast, when an updated version of an existing product is introduced, all the knowledge about pricing for the existing product can be used when pricing the new product.

25. Charging a relatively high price for new and innovative products to those consumers most willing and able to pay the high price is called price:

- A. penetration.
- B. bundling.
- C. fixing.
- D. referencing.
- E.** skimming.

There are two primary new product pricing strategies: skimming, which focuses on selling at a high price to the Innovators and Early Adopters on the diffusion of innovation curve; and market penetration, which focuses on selling at a low price in order to gain market share as quickly as possible.

26. The major objectives associated with a market penetration pricing strategy are to:

- A. capture the high end of the market demand curve and lower introduction costs.
- B.** build sales and market share.
- C. minimize customer dissatisfaction and maximize reference price value.
- D. provide an incentive to purchase a less desirable product in order to obtain a more desirable product.
- E. match competitors' prices and communicate high quality.

27. The _____ occurs when unit cost drops as the cumulative quantity sold increases.

- A. slotting allowance benefit
- B. price fixing return
- C. improvement value effect
- D. experience curve effect**
- E. cumulative bundling benefit

The experience curve refers to a drop in unit cost as the total history of the quantity sold increases.

28. A pricing strategy is:

- A. a long-term approach to setting prices in an integrated effort.**
- B. the use of seasonal discounts to reduce inventory.
- C. the use of slotting allowances to gain access to distribution channels.
- D. a short-term approach to setting prices.
- E. associated with competitive threats in the marketplace.

The key here is the difference between strategies and tactics. Pricing strategies are long-term approaches, whereas tactics are short-term methods.

29. Which of the following is NOT a common business-to-business pricing tactic?

- A. Seasonal discounts.
- B. Slotting allowances.
- C. Quantity discounts.
- D. Loss leader pricing.**
- E. Advertising allowances.

Business pricing tactics include seasonal discounts, cash discounts, advertising allowances, slotting allowances, quantity discounts, and uniform delivered vs. zone pricing. Loss leader pricing is an unethical practice in which a retailer sells a product at a price below its costs.

30. The primary reasons manufacturers offer seasonal discounts to retailers are to more easily plan production schedules and to:

- A. lessen inventories of finished goods.**
- B. reduce advertising allowances.
- C. increase price skimming.
- D. control vertical pricing.
- E. alter consumers' perceived reference price.

Seasonal discounts are additional reductions offered as an incentive to retailers to order merchandise in advance of the normal buying season. Retailers must weigh the benefits of the discount against the additional costs of carrying inventory for a longer time.

31 Amie Stegaro makes and sells handmade baby quilts for \$125 each. She has determined that her fixed costs are \$8,000, and her variable costs per quilt are \$45. What is her break-even point in units?

- a). 47
- b). 64
- c). 50
- d). 100*
- e). 178

32. Many consumers, especially when faced with an uncertain purchase decision, think that a high price:

- a). is a signal of higher quality*
- b). is an indication that consumers are being ripped off
- c). will always lead to major price discounts to wholesalers and retailers that distribute it
- d). is a sign of the company's overall market share
- e). is because the brand was slipping into the decline stage of the product life cycle but has had a sudden resurgence of growth

33. A firm makes shoes for a cost of \$20 pair and sells them for a price that earns them a 60% markup on price. What price does the firm sell the shoes for?

- a) \$33.33
- b) \$26
- c) \$50*
- d) \$32
- e) \$80

Answer: $P - V = MpP$

$$P - 20 = .6P$$

$$P - .6P = 20$$

$$0.4P = 20$$

$$P = 20/0.4 = 50$$