TEST FOR PREVIOUS LEARNING MATERIALS UNDERSTANDING

Answer the questions about taxes of the enterprise:

1. Indirect taxes are the payments for which the impact and the incidence lies on one and the same person (TRUE/FALSE)

2. Fines are imposed as a penalty for violating the laws state(TRUE/FALSE)

3. Income Tax —a percentage of individual earnings filed to the federal government (TRUE/FALSE)

In 5 minutes in one message write your name and answer to the test in Zoom chat personally to the teacher (NOT IN COMMON CHAT!!!), and your attendance would be assessed at 0,5 point

Pricing decisions of recent enterprise

Plan of the lecture

1. Price: concept, role and function. Price' classifications
2. Supply and demand theory
3. Pricing policy

1. Price: concept, role and function. Price' classification

Price, the amount of money that has to be paid to acquire a given product. As the amount people are prepared to pay for a product represents its value, price is also a measure of value (value-based pricing theory).

In classical (costly-based) theory of price:
Price is the monetary value of a good, service or resource established during a transaction. It includes all costs of production – fixed and working capital, labor and commercial payments such as advertising and transportation.
The theory of price states that the **price** for any specific good or service is based on the relationship between its supply and demand. The optimal market price, or equilibrium, is the point at which the total number of items available can be reasonably consumed by potential customers (competition-based pricing).
Price can be set by a seller or producer when they possess **monopoly power**, and are said to be price makers, or set through the market itself, when firms are price takers. Price can also be set by the buyer when they posses some **monopsony power**.

1. Price: concept, role and function. Price' classification

In a free-enterprise exchange economy characterized by private ownership of the means of production, prices serve five functions:

- they are a means of transmitting information about changes in relative importance of goods and factors of production
- they provide an incentive to enterprises to produce those products that are valued most highly by the market and to use methods of production that economize relatively scarce factors of production
- they provide an incentive to owners of resources to direct them into the most highly remunerated uses
- they distribute output among the owners of production
- they ration fixed supplies of goods among consumers

Price - the monetary expression of value of goods. It performs various functions: accounting, distribution, and stimulating.

In the account of the value function reflects the socially necessary labor costs for production and sales, estimated costs and benefits of production.

Stimulating function is used for the development of resource-saving, production efficiency, improve product quality, introducing new technology and etc.

The ***distribution function*** takes into consideration the price of excise duty on certain groups and types of goods, value added tax and other forms of centralized net revenue coming into the state budget, region, etc.

Price control classification:

Free

The price is a result of market mechanism (meeting of demand and supply

Govt managed

Formed by demand and supply, but may be regulated by the state government

Fixed

Prices are totally established by the state

Classification of prices by the nature of traffic served.

Based on the serviced areas of commodity circulation, prices are divided into the following types:

- wholesale prices for the products of industry;
- prices for construction products;
- prices paid;
- rates of freight and passenger transport;
- retail prices;
- tariffs for paid services rendered to the population;
- prices, serving the foreign trade turnover.

Wholesale prices for the products of industry - the prices at which goods are bought and sold businesses, companies and organizations irrespective of their ownership in the order of the wholesale trade. This kind of price divided by the wholesale prices and wholesale businesses (selling) price of the industry.

Wholesale prices of the enterprise - the prices of manufacturers of products for which they sell manufactured products to consumers, offsetting their costs of production and sales, and getting a profit that will allow them to continue and develop its activities.

Wholesale (selling) price of industry - the prices at which companies and organizations, consumers pay for goods-producing enterprises or marketing (wholesale) organizations.

Purchase prices – the prices (wholesale), which sold agricultural products businesses, farmers and the public. Are usually negotiated prices to be established by mutual agreement.

Retail prices - the prices at which goods are sold at retail public, businesses and organizations.

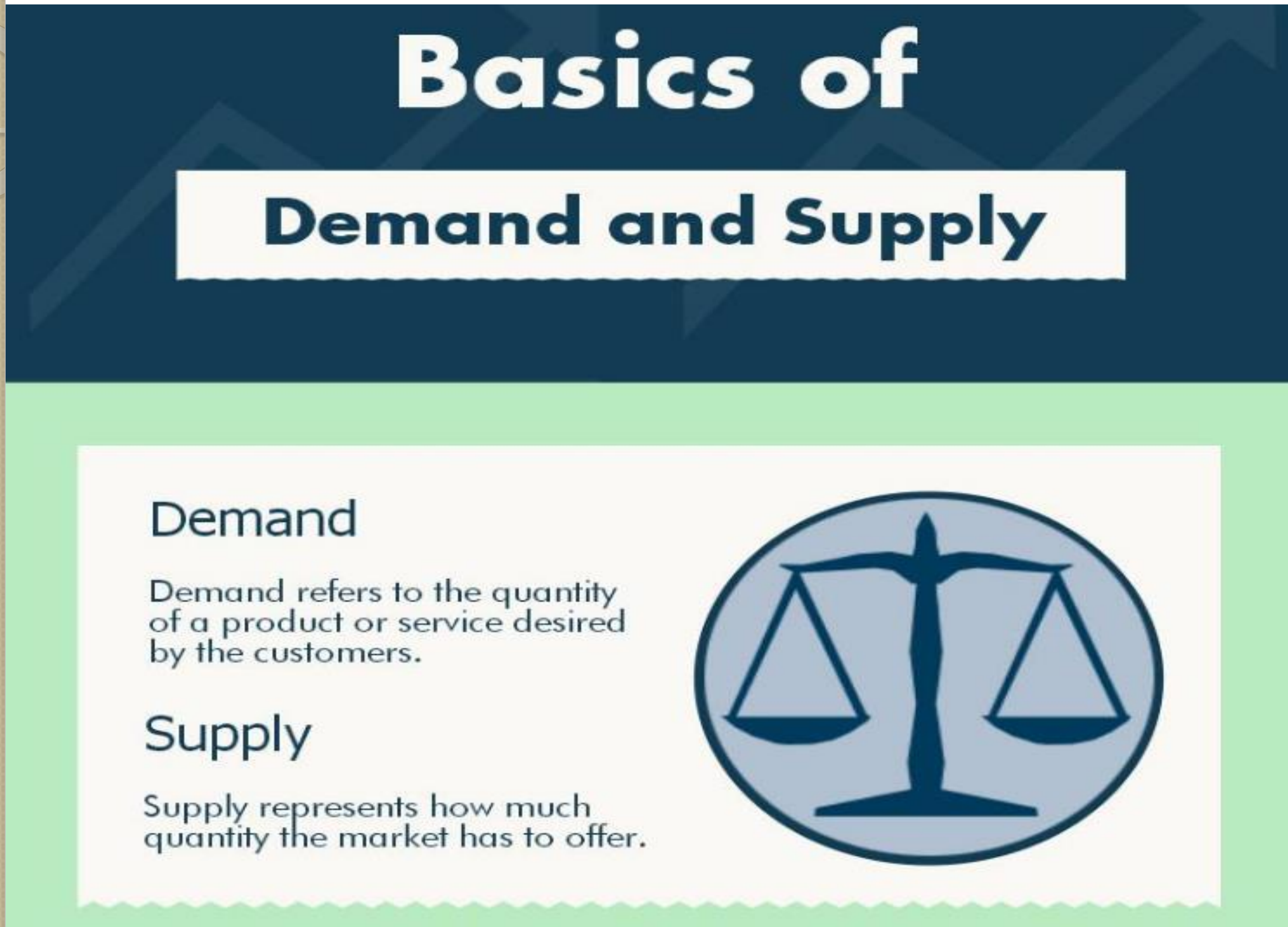
These include the wholesale (selling) price of industry, excise, value added tax and trade allowance, consisting of the distribution costs of trade organizations and their profits.

The auction price - the price of goods sold at auction. It may differ significantly from the market price (to be many times higher than it), because it reflects the unique and rare properties and characteristics of products and can also depend on the skill of the person conducting the auction.

Exchange price - the price at which the wholesale deal on the sale of goods in the market. It is free at the cost of which varies according to demand, the volume of transactions, etc.

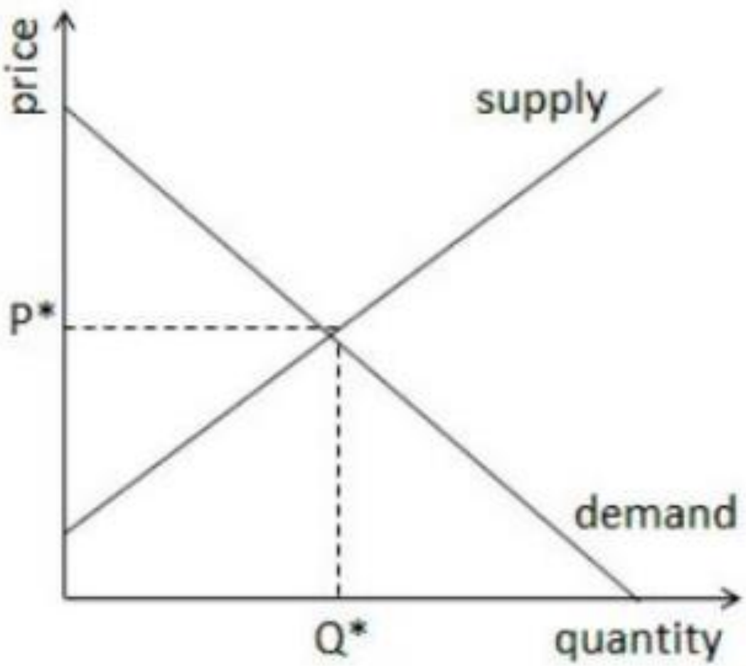
Contract (contract) price - the price at which the sale of goods in accordance with the signed agreement.

2. Supply and demand theory



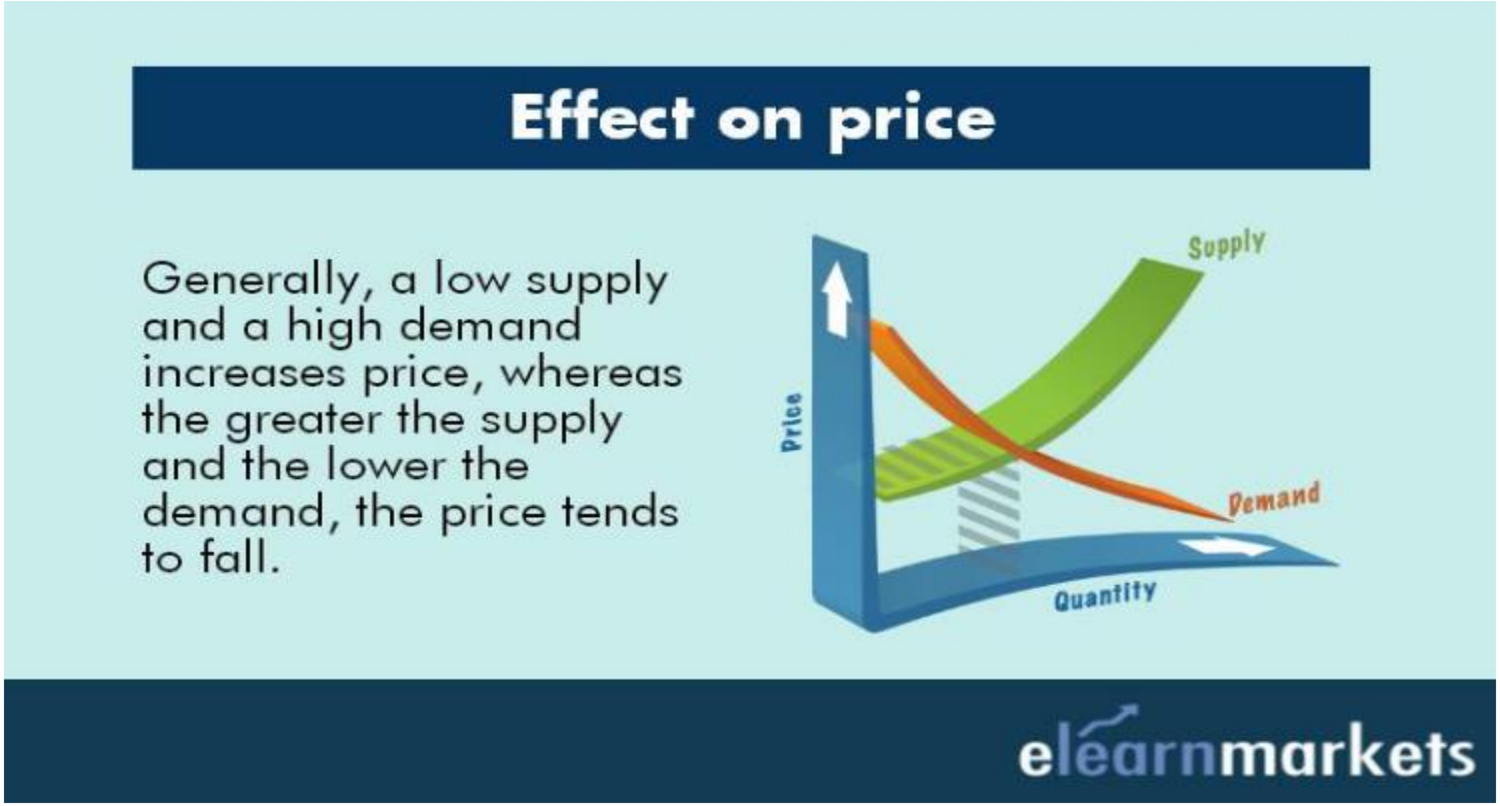
Law of demand and supply

In economic theory, the law of supply and demand is considered one of the fundamental principles governing an economy.



The law of supply and demand explains the interaction between the supply and the demand for a particular product.

It defines the effect the availability of a particular product and the desire for that product has on price.

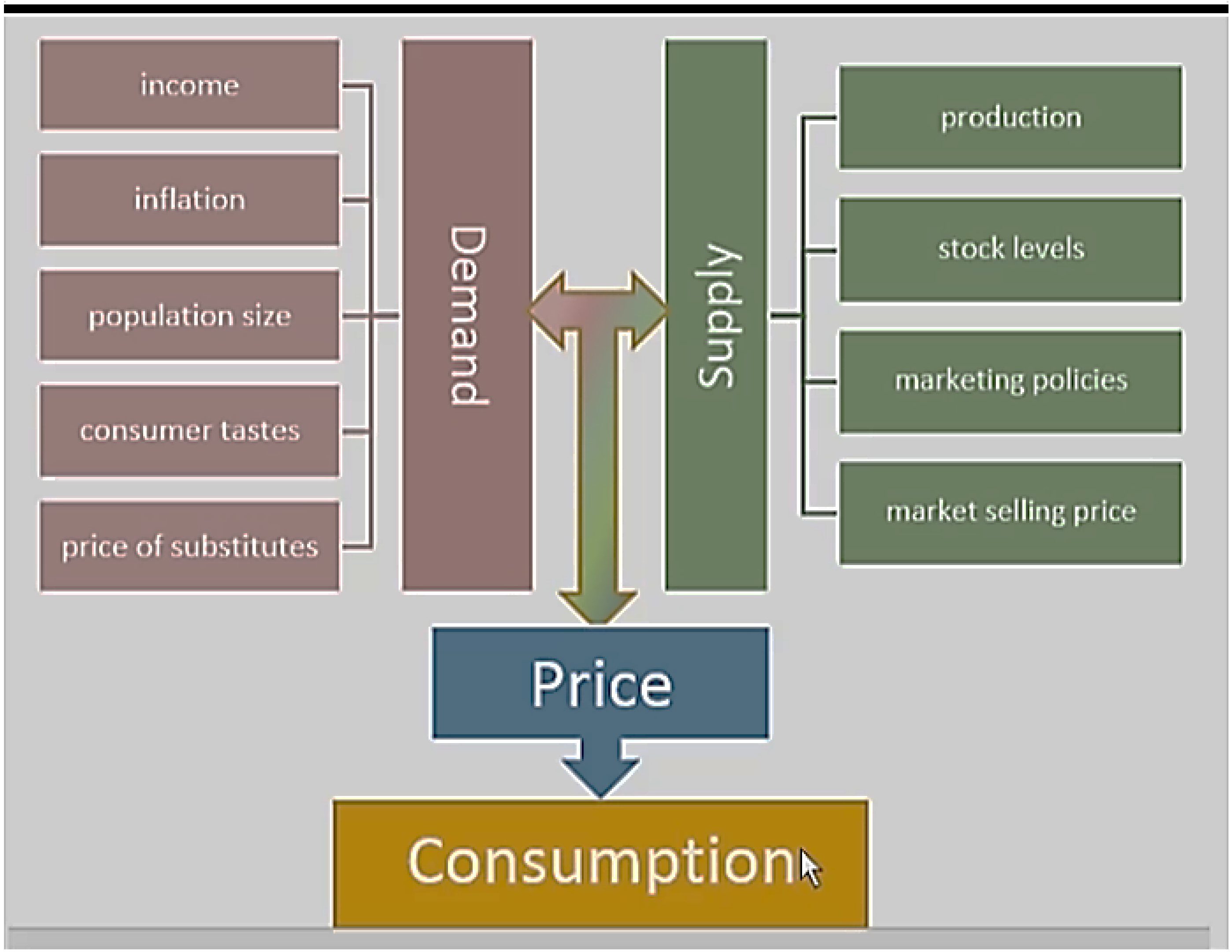


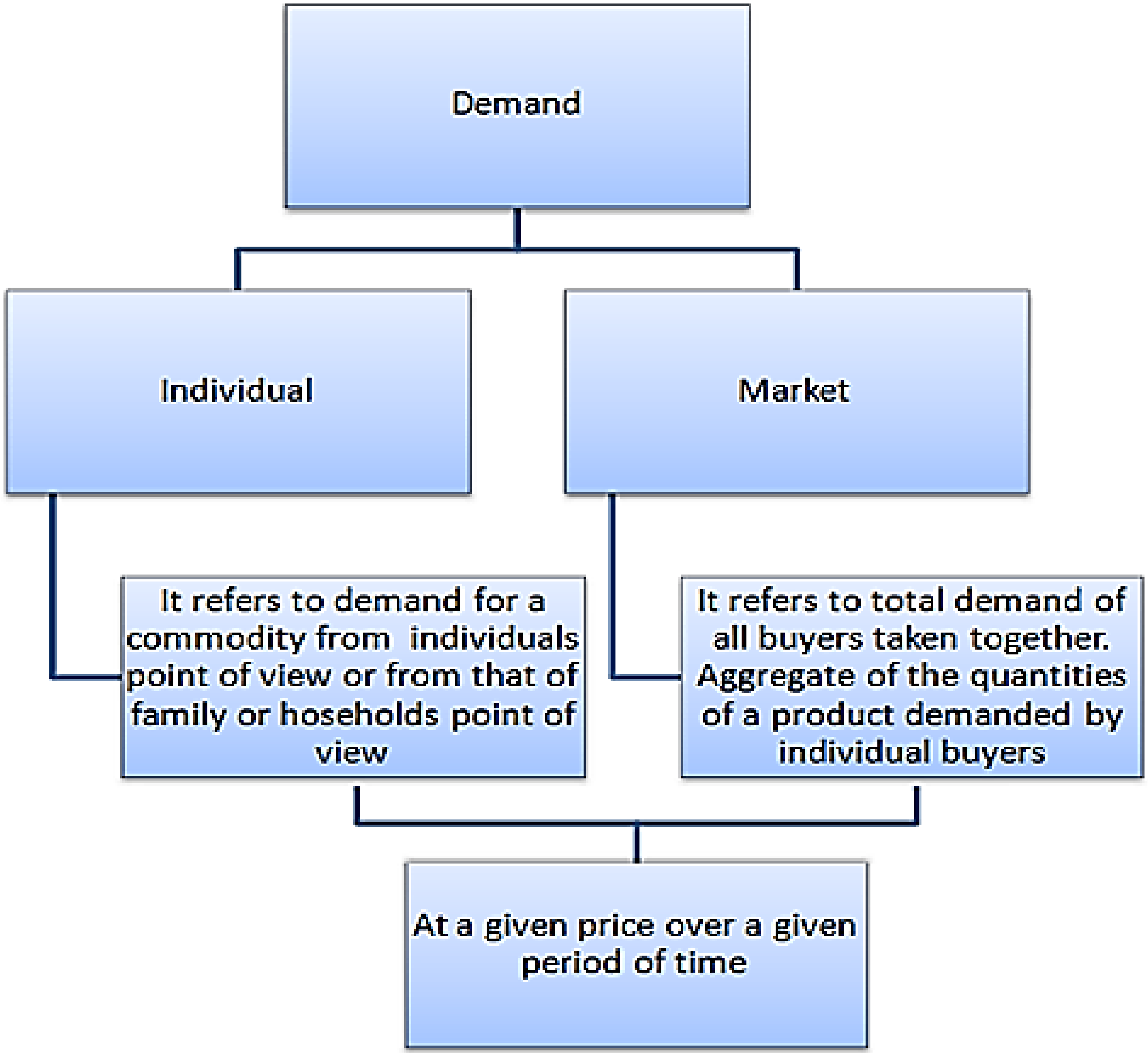
Let us understand the following difference:

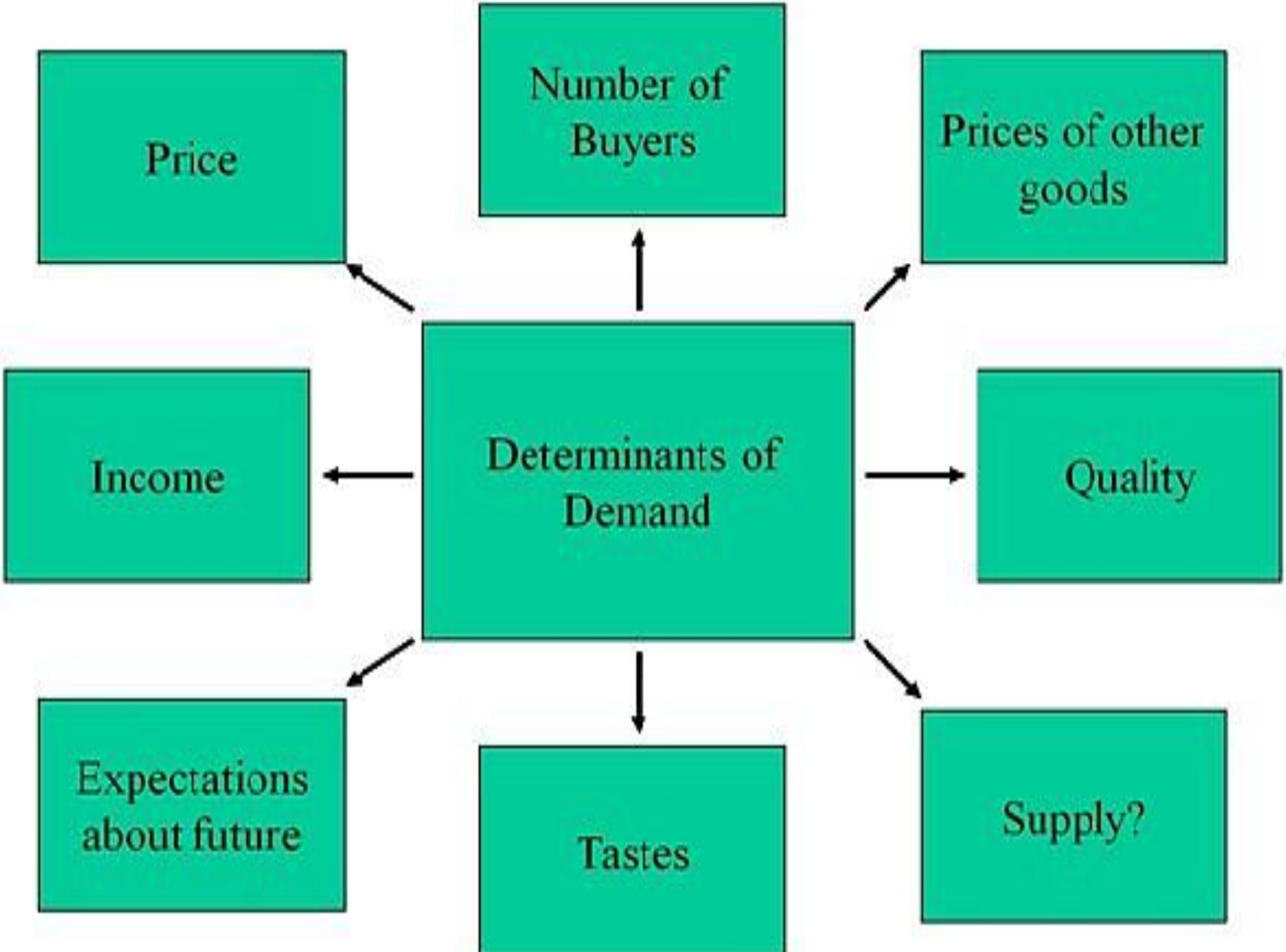
Consumption is the amount of goods used and is determined by the price which in turn is determined by the demand and supply factors.

Demand refers to the amount of goods that will be used at any given price level and along with supply determines the price.

Understanding the relationship between demand and supply




Demand
Individual
Market
It refers to demand for a commodity from individuals point of view or from that of family or hoseholds point of view
It refers to total demand of all buyers taken together. Aggregate of the quantities of a product demanded by individual buyers
At a given price over a given period of time


Price
Number of Buyers
Prices of other goods
Income
Determinants of Demand
Quality
Expectations about future
Tastes
Supply?

Market Supply

- Supply is the quantity of a good or service that a producer is **willing and able to supply** onto the market at a given price in a given time period
- The **basic law of supply** is that as the price of a product rises, so businesses expand supply to the market.
- A supply curve shows a relationship between market price and how much a firm is willing and able to sell

Production Lines

Mass Production

Airline Travel

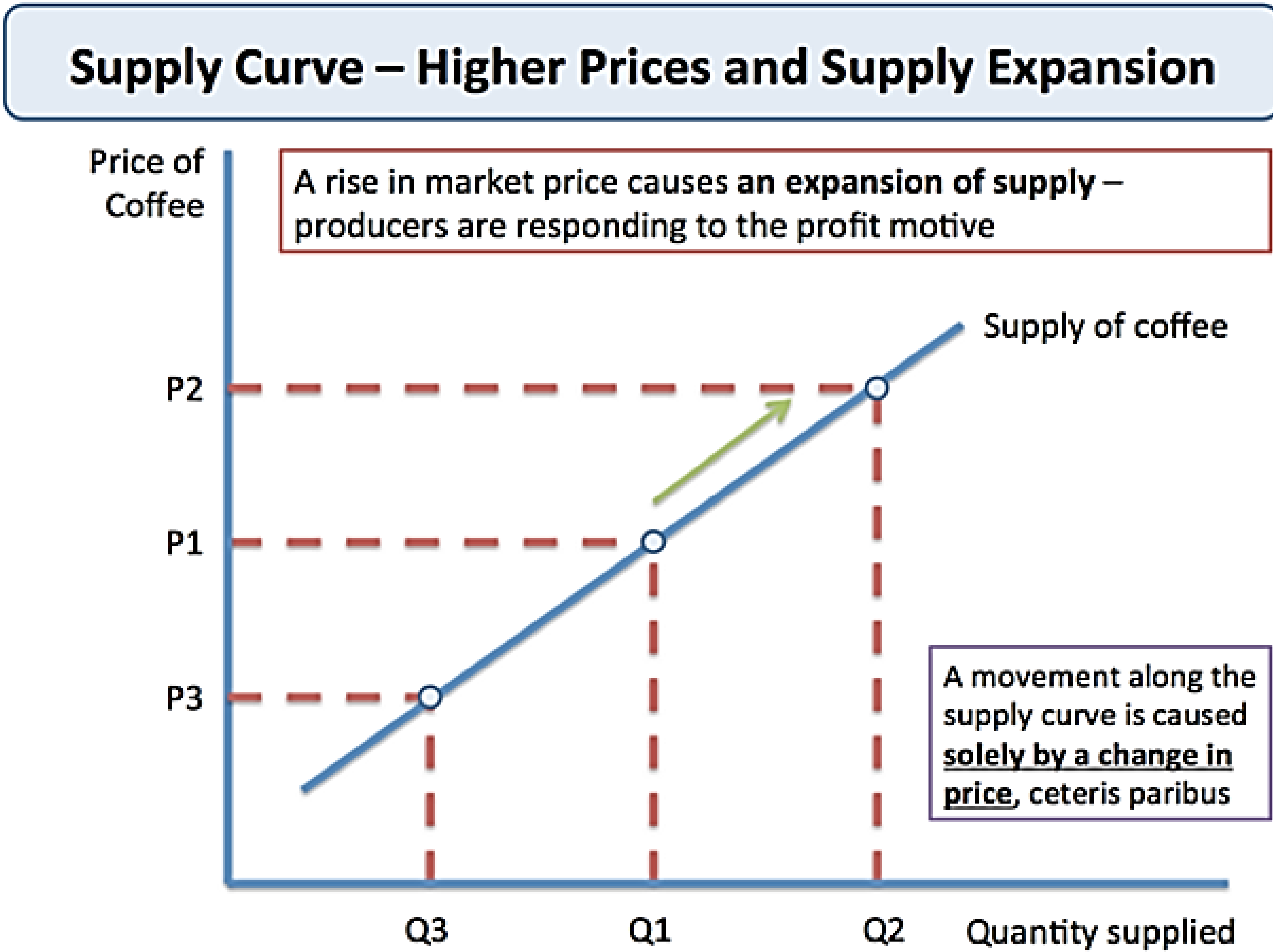
Explaining the Law of Supply

There are three main reasons why supply curves are drawn as sloping upwards from left to right giving a positive relationship between the market price and quantity supplied:

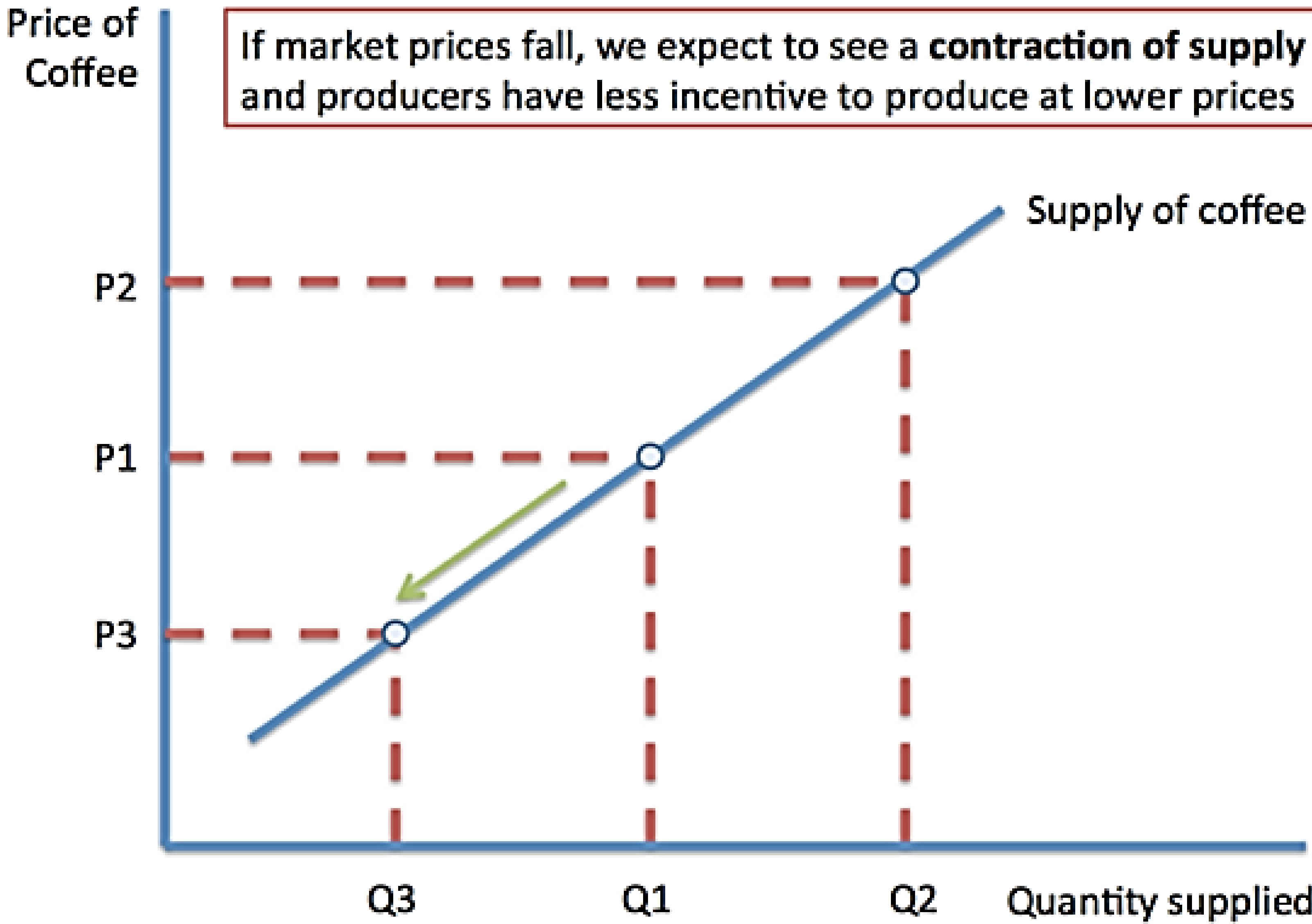
1. The profit motive: When the market price rises following an increase in demand, it becomes more profitable for businesses to increase their output

2. Production and costs: When output expands, a firm's production costs tend to rise, therefore a higher price is needed to cover these extra costs of production. This may be due to the effects of diminishing returns as more factor inputs are added to production.

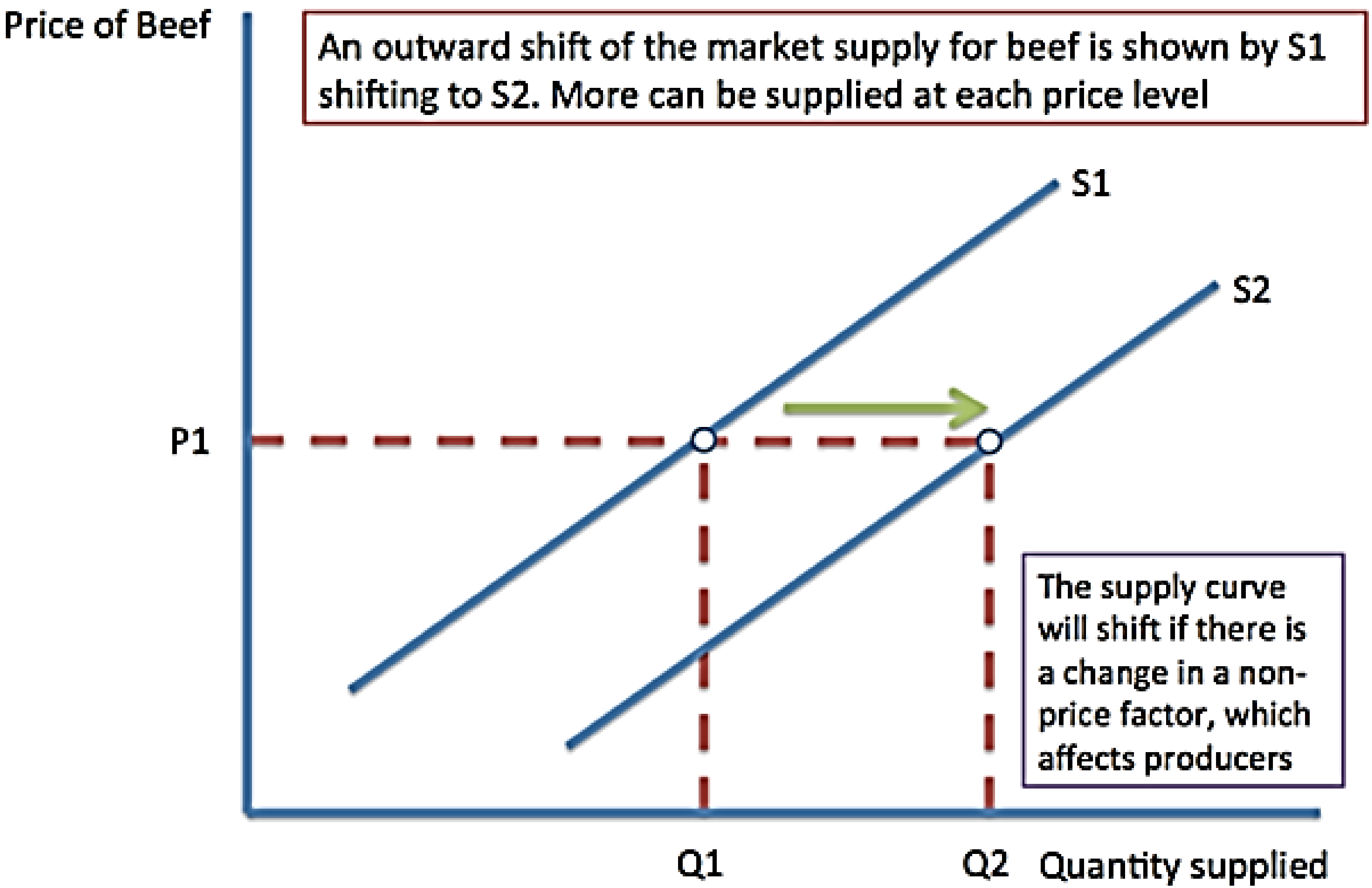
3. New entrants coming into the market: Higher prices may create an incentive for other businesses to enter the market leading to an increase in total supply.


Supply Curve – Higher Prices and Supply Expansion
Price of Coffee
A rise in market price causes an expansion of supply – producers are responding to the profit motive
Supply of coffee
P2
P1
P3
A movement along the supply curve is caused solely by a change in price, ceteris paribus
Q3
Q1
Q2
Quantity supplied

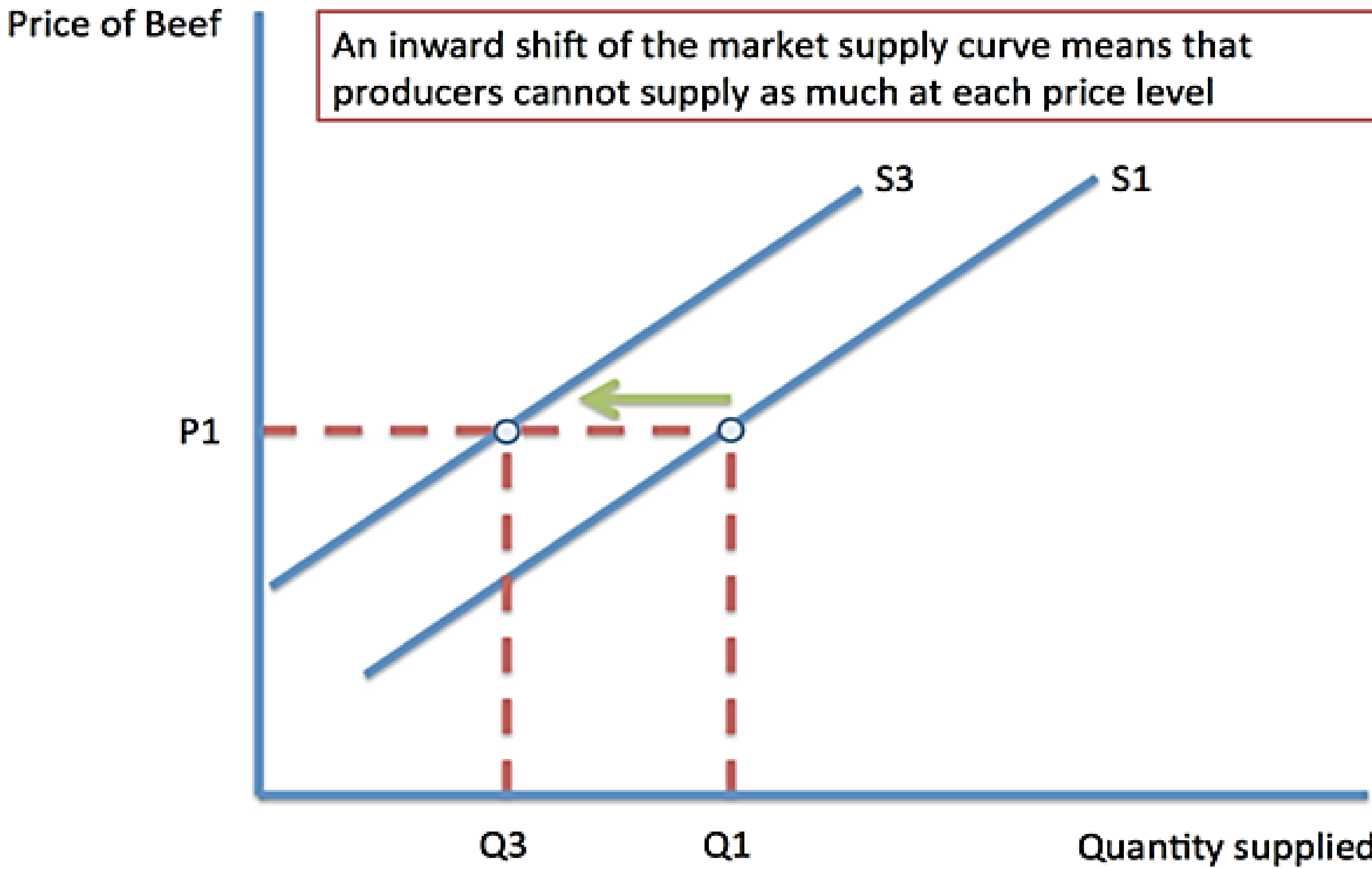
Supply Curve – Lower Prices and Supply Contraction



Illustrating An Outward Shift in Market Supply



Illustrating An Inward Shift in Market Supply



- **1.Changes in the costs of production**

- **Lower costs** of production mean that a business can supply more at each price. For example a magazine publisher might see a reduction in the cost of its imported paper and inks. These cost savings can then be passed through the **supply chain** to wholesalers and retailers and may result in lower market prices for consumers.

- If the costs of production increase, for example following a rise in the **price of raw materials** or a firm having to **pay higher wages** to its workers, then businesses cannot supply as much at the same price and this will cause an inward shift of the supply curve.

- A **fall in the exchange rate** causes an increase in the prices of imported components and raw materials and will lead to a decrease in supply. For example if the pounds falls 10% against the Euro, it becomes more expensive for British car manufacturers to import their rubber and glass from Western European suppliers, and higher prices for paints imported from Eastern Europe.

- **2.Changes in technology**
- Production technologies can change quickly and in industries where change is rapid we see increases in supply and lower prices for the consumer.
- **3.Government taxes and subsidies and regulations**
- Indirect taxes cause an increase in production costs - an inward shift of supply
- Subsidies bring about a fall in supply costs – an outward shift of supply
- Regulations increase production costs – an inward shift of supply

- **4.Changes in climate in agricultural industries**

- For commodities such as coffee, oranges and wheat, the effect of **climatic conditions** can exert a great influence on market supply.

- Favourable weather will produce a bumper harvest and will increase supply. (An outward shift)

- Unfavourable weather conditions including the effects of drought will lead to a poorer harvest, lower yields and therefore a decrease in supply (inward shift)

- Because commodities are often used as ingredients in the production of other products, a change in the supply of one can affect the supply and price of another product. Higher coffee prices for example can lead to an increase in the price of coffee-flavoured cakes.

- **5.Change in the prices of a substitute in production**
- A **substitute in production** is a product that could have been supplied **using the same resources.** If cocoa prices rise for example this may cause some farmers to switch from other crops and invest money in establishing new cocoa plantations.
- **6.The number of producers in the market and their objectives**
- The **number of sellers in an industry** affects market supply
- When new businesses enter a market, supply increases causing downward pressure on price. If the existing businesses decide to move away from maximising their profits towards seeking a higher share of the market, then total supply available at each price will increase – the market supply curve will shift outwards.

Market equilibrium

When the quantity demanded equals the quantity supplied—when buyers' and sellers' plans are consistent.

Equilibrium price

The price at which the quantity demanded equals the quantity supplied.

Equilibrium quantity

The quantity bought and sold at the equilibrium price.

Figure 1. shows the equilibrium price and equilibrium quantity.

1. Market equilibrium is at the intersection of the demand curve and the supply curve.

2. The equilibrium price is $1 a bottle.

3. The equilibrium quantity is 10 million bottles a day.

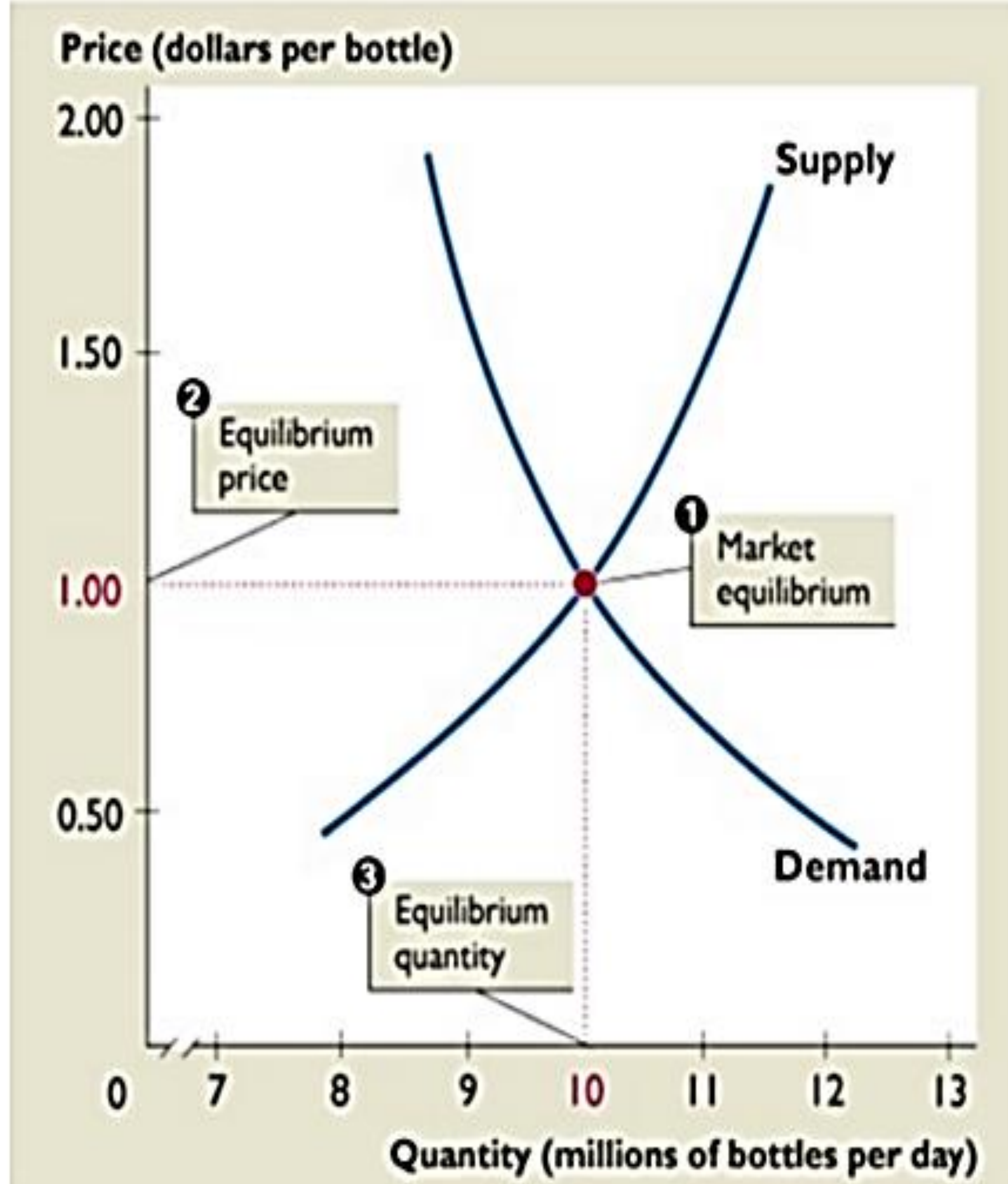
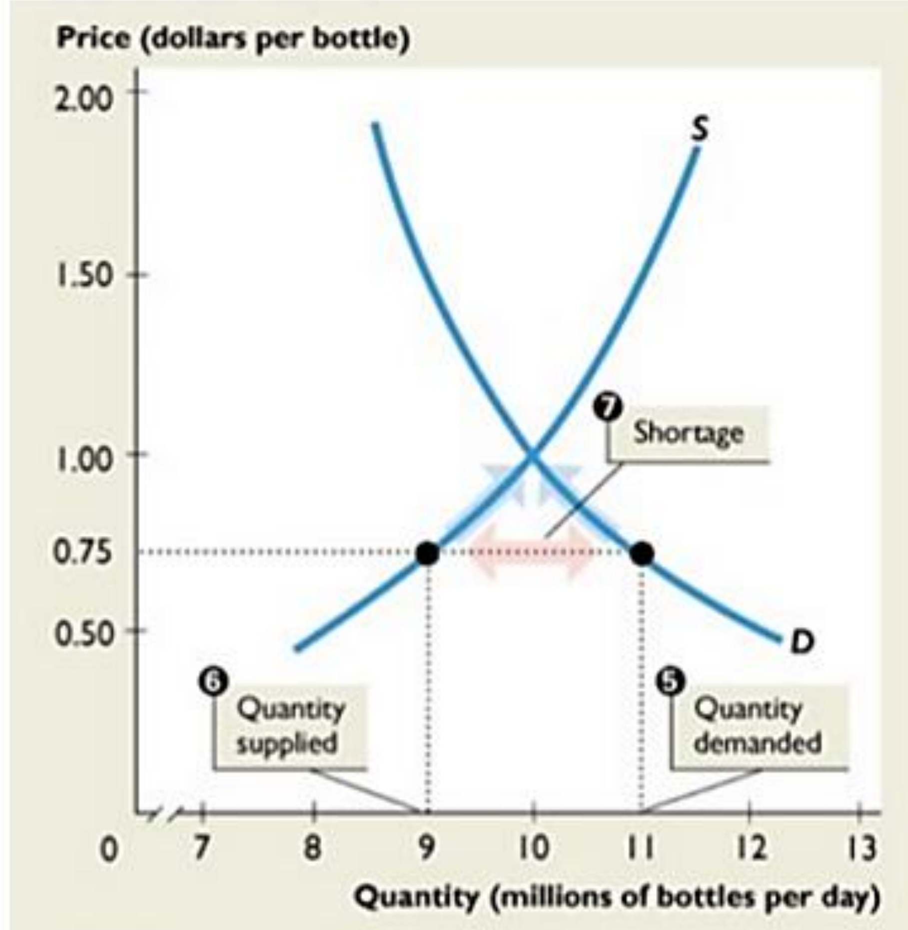


Figure 2: market achieves equilibrium.

At 75 cents a bottle:

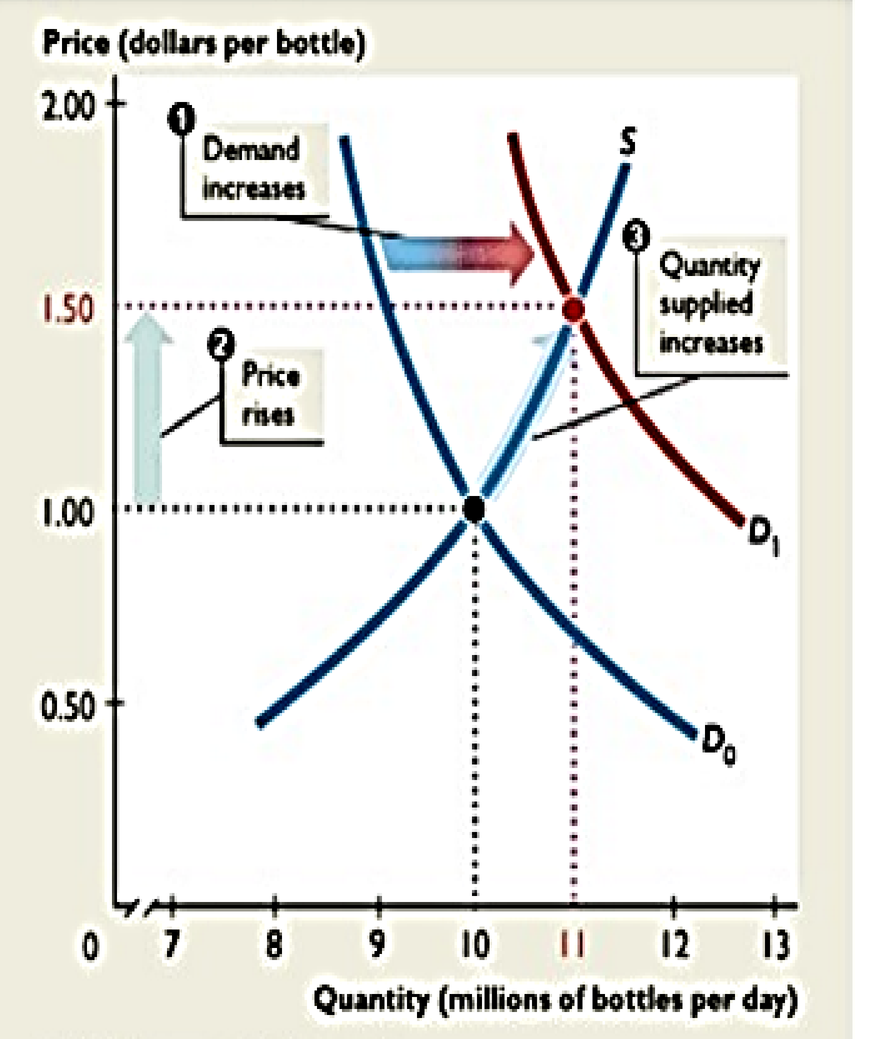
5. Quantity demanded is 11 bottles.
6. Quantity supplied is 9 bottles.
7. There is a shortage.
8. Price rises until the market is in equilibrium.



(b) Shortage and price rises

Figure 3.   shows the effects of an increase in demand.

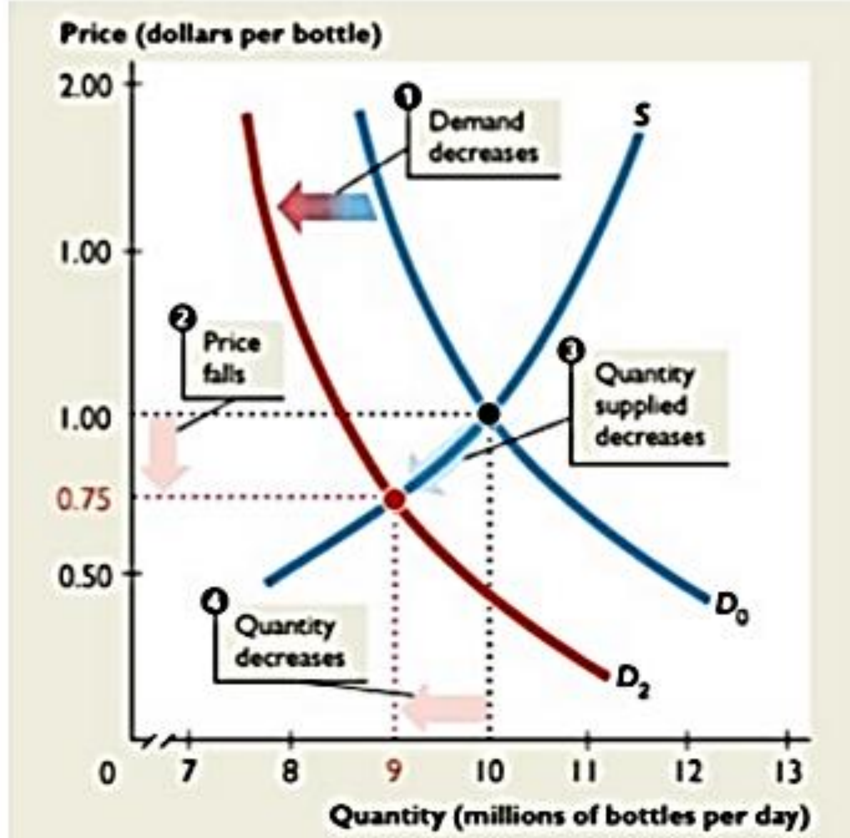
1. An increase in demand shifts the demand curve rightward.
2. The price rises to restore market equilibrium.
3. Quantity supplied increases along the supply curve.



(a) An increase in demand

Figure 4.   shows the effects of a decrease in demand.

1. A decrease in demand shifts the demand curve leftward.
2. The price falls to restore market equilibrium.
3. Quantity supplied decreases along the supply curve.
4. Equilibrium quantity decreases.



(b) A decrease in demand

Demand elasticity

Price Elasticity of demand measures the degree of responsiveness of the quantity demanded of a commodity to change in its price. Thus its measure depends upon comparing the percentage change in the price with the resultant percentage change in the quantity demanded.

Exact formulations are as follows:

$$n = \text{Price Elasticity} = \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$$

$$\text{or} = \frac{\text{Proportional change in quantity demanded}}{\text{Proportional change in price}}$$

$$= \frac{\Delta Q / Q}{\Delta P / P} = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q} \quad \{\Delta = \text{change}\}$$

There is a slight problem with computation of percentage changes in this manner. We get different answers depending on whether we move up or down the demand curve. One way out of this difficulty is to take the average of two prices and the two quantities over the range we are considering and comparing the change of the average, instead of comparing it to the price or quantity at the start of the change.

The formula for calculating price elasticity of demand then becomes:

$$n = \frac{\text{Change in quantity demanded}}{\text{Sum of quantities/2}} \div \frac{\text{Change in Price}}{\text{Sum of prices/2}}$$

We can rewrite this simply :

$$n = \frac{\Delta Q_d}{(Q_1 + Q_2)/2} \div \frac{\Delta P}{(P_1 + P_2)/2}$$ where Q_1 and Q_2 are two different quantities demanded before and after the price change, and P_1 and P_2 are two different prices.

Price Elasticity of Demand

PRICE ELASTICITY OF DEMAND

Meaning

Measure of responsiveness of quantity demanded to a change in price.

Factors influencing

1. **Percentage income spent** - If negligible - price inelastic otherwise elastic
2. **Nature of good** – If habit-forming or high necessary - *price inelastic otherwise elastic*
3. **Availability of substitutes** - *If no choices or substitutes - Price inelastic otherwise elastic*
4. **Time to search** - *If no time to search for cheaper - price inelastic otherwise elastic*
5. **Brand loyalty** – *If high - price inelastic otherwise elastic*

Equation

PED = % Δ QD / % Δ P

- Value>1 = elastic
- Value<1= inelastic

Effect on Revenue

For products with

Price **elastic** demand

Price increases Revenue decreases

Price decreases Revenue increases

[Inverse relation between price and revenue]

Price **inelastic** demand

Price increases Revenue increases

Price increases Revenue increases

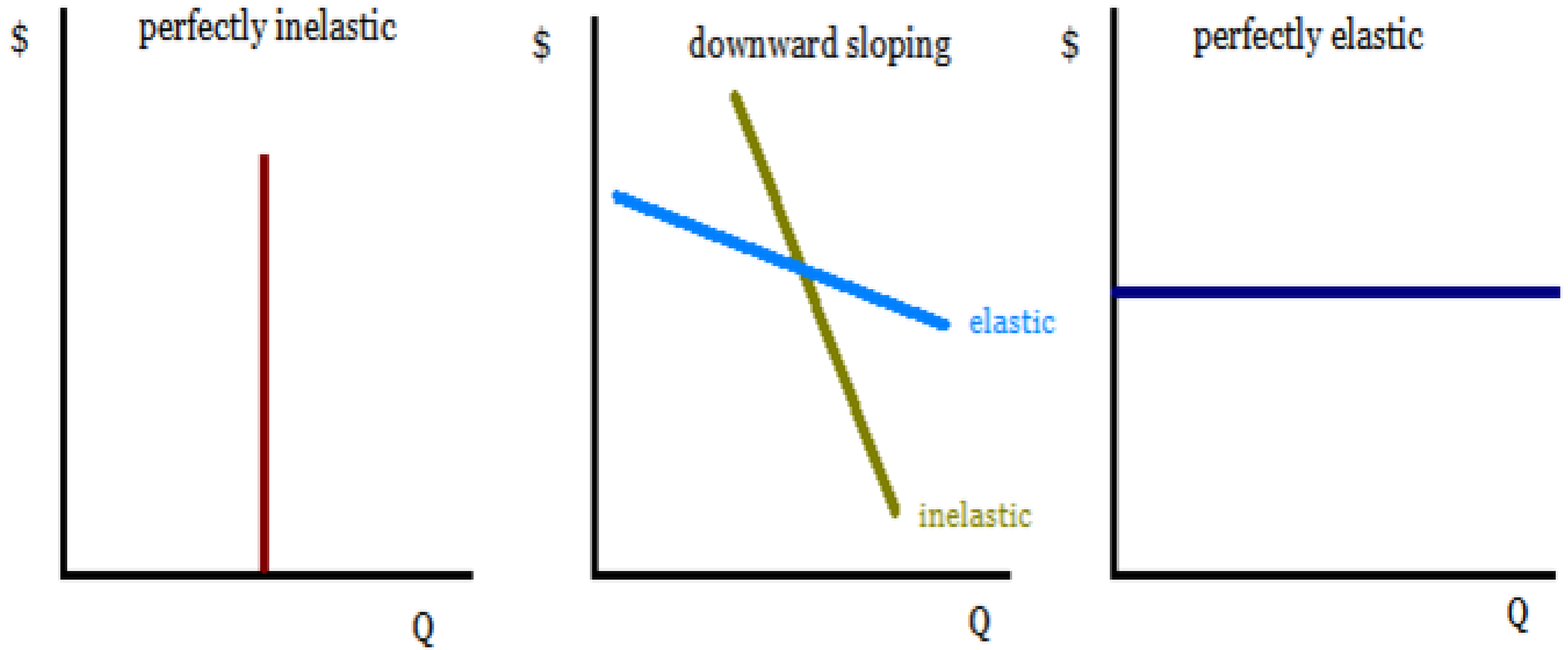
[Inverse relation between price and revenue]

Importance

Pricing decisions for revenue of firms

Taxation decisions for revenue of government

Different demand elasticity curves



Defining and Measuring Price Elasticity of Supply

Price elasticity of supply (Pes) measures the relationship between change in quantity supplied and a change in the good's own price

- If supply is **elastic**, then producers can increase their output without a rise in cost or a time delay
- If supply is **inelastic**, then firms find it hard to change their production in a given time period
- The **formula** for price elasticity of supply is:
- ***% change in quantity supplied divided by the % change in price***

To calculate the price elasticity of supply we use following formula:

$$Es = \Delta Q/\Delta P \times P/Q$$

Es= (%Change in Quantity Supplied) / (%Change in Price)

$$Es = \frac{(\text{Change in quantity supplied/Initial Supply}) \times 100}{(\text{Change in price/Initial Price}) \times 100}$$

$$Es = \frac{(Q1-Q/Q) \times 100}{(P1-P/P) \times 100}$$

$$Es = \frac{(\Delta Q/Q) \times 100}{(\Delta P/P) \times 100}$$

$$Es = (\Delta Q/Q) \times (P/\Delta P)$$

$$Es = \Delta Q/\Delta P \times P/Q$$

Factors Affecting Price Elasticity of Supply

Apply each of the factors mentioned below to the specific industry

1. **Spare production capacity**: If there is plenty of spare capacity then a business can increase output without a rise in costs and supply will be elastic in response to a change in demand
2. **Stocks of finished products and components**: If stocks of raw materials and finished products are at a high level then a firm is able to respond to a change in demand - supply will be elastic. Perishable goods are often harder/more expensive to store
3. **Ease and cost of factor substitution/factor mobility**: If capital and labour are occupationally mobile then the elasticity of supply for a product is likely to be higher as resources can be mobilized to supply the extra output e.g. the reallocation of workers to new tasks
4. **Time period and production speed**: Supply is more price elastic the longer the time that a firm is allowed to adjust its production levels

When will market supply be price elastic?

A price elastic supply is when **PES >1** following a change in demand

Supplier has plenty of spare capacity to increase output

High stock levels are available to meet rising demand

There is a short production time frame to get extra products to market

Ease of factor substitution is high – i.e. resources can be reallocated easily

Elastic and Inelastic Supply Curves

Elastic supply: Pes > 1	Inelastic supply: Pes < 1
Change in demand can be met without large rise in price	Supply relatively unresponsive to a change in demand

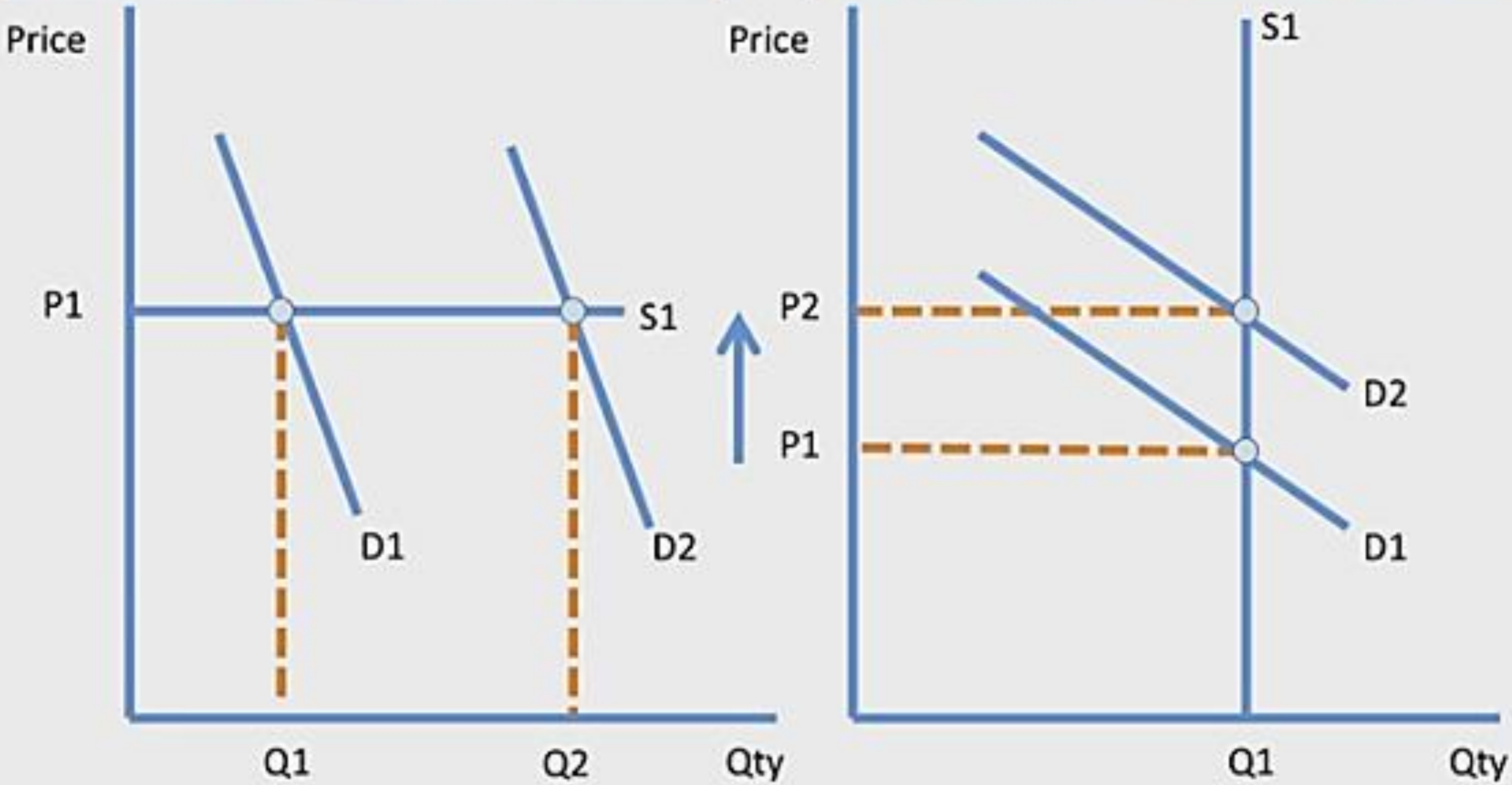
Perfectly Elastic and Perfectly Inelastic Supply Curves

Perfectly Elastic Supply

An increase in demand can be met without any change in market price

Perfectly Inelastic Supply

Supply is fixed and cannot respond to a change in market demand



3. PRICING POLICY OF THE ENTERPRISE

Pricing in the enterprise is a complex process consisting of several interrelated steps:

- collection and systematic analysis of market information;
- justification of the main objectives of pricing policy on a certain period of time;
- selection of pricing methods;
- setting a specific price level;
- forming a system of discounts and surcharges to the price.

Figure 1: Comparison of three most important pricing principles

	Cost-based Pricing	Competition-based Pricing	Value-based Pricing
Description	Based primarily on data from cost calculations	Based primarily on information about competitors' prices and products or services offered	Based primarily on information about the value that the customer attaches or can be induced to attach to offerings
Examples for concrete action	Cost plus pricing: Calculating the cost and determining a markup for profit	Research competitors' prices (using specific competitors or average prices), followed by determining a target price difference (e.g. comparisons of products or services offered)	Determining the added value of a product or service for the customer, or an empirical determination of what a customer is willing to pay for a given product and then identifying the resulting contribution to profit
Strengths	Basic data relatively easy to obtain; often perceived as "fair" by the customer	Basic data relatively easy to obtain; takes into account price pressure arising from the competitive situation	Can come close to exhausting the customer's willingness to pay while taking into account the competitive situation and financial consequences
Weaknesses	Neglects customer needs and the competition; leads to suboptimal prices that are either too low and waste the margin or too high and discourage sales	Tends to encourage mechanical reactions to the competition's price behavior and can lead to price wars; neglects customer needs and leads to "product-oriented" assessments of differences in products offered, which are irrelevant to needs; in some markets, there is no information on market price or competitive prices	Difficult and usually costly to obtain basic information; implementation can involve additional costs and lead to resistance; customers may perceive certain aspects as unfair

Source: Hinterhuber,[4] Nagle and Hogan[12] and Siems[13]

Figure 2: Sequence of pricing considerations

Pricing principle	Starting Point						Result
Cost-based pricing	Offer (product, service)	►	Cost plus "profit markup"	►	Price	►	Product-oriented sales
Competition-based pricing	Competition (prices, offers)	►	Positioning in relation to the competition	►	Price	►	Greatest competitive pressure, fight for market share
Value-based pricing	Customers (needs references)	►	Value-specific benefit attributes from customer's perspective	►	Price	►	Offer oriented to needs, target costs dependent on price

Source: Nagle and Hogan[12]

Practitioners and researchers largely agree that value-based pricing leads to higher profits than cost- or competition-based pricing. Yet, despite the fundamental superiority of value-based pricing, studies continually show that cost- and competition-based pricing remain widespread in practice.

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3. Pricing policy

Pricing policy is a mechanism or model of decision making about the behavior of businesses on the main types of markets to achieve the goals of economic activity.

In the development of pricing policies typically address the following questions:

- in which cases should be used to develop pricing policies;
- when necessary to respond with the price of market policies of competitors;
- which measures the price must be accompanied by the introduction of a new product;
- for any goods sold from the need to change the range of prices;
- which markets should be active pricing policy, change pricing strategy;
- how to allocate time-specific price changes;
- what measures can be improved price performance marketing;
- how to take into account in pricing the available domestic and external constraints of business and many others.

3. Pricing policy

Types of pricing	
	Premium pricing
	Penetration pricing
	Economy pricing
	Price skimming
	Pshychological pricing
	Neutral strategy
	Captive product pricing
	Optional product pricing
	Product bundle pricing
	Promotional pricing
	Geographical pricing

1) Premium pricing involves establishing a price higher than your competitors to achieve a premium positioning. You can use this kind of pricing when your product or service presents some unique features or core advantages, or when the company has a unique competitive advantage compared to its rivals. For example, Audi and Mercedes are premium brands of cars because they are far above the rest in their product design as well as in their marketing communications.

2) Penetration pricing is a commonly used pricing method amongst the various types of pricing designed to capture market share by entering the market with a low price. This strategy is used in order to attract more customers and to make the customer switch from current brands existing in the market. The main target group is price sensitive customers. Once a market share is captured, the prices are increased by the company. However, this is a sensitive strategy to apply as the market might be penetrated by yet another new entrant. Or the margins are so low that the company does not survive. And finally, this strategy never creates long term brand loyalty in the mind of customers. This strategy is used mainly to increase brand awareness and start with a small market share.

3) Economy pricing takes a very low cost approach. Just the bare minimum to keep prices low and attract a specific segment of the market that is highly price sensitive. Examples of companies focusing on this type of pricing include Walmart, Lidl and Aldi.

4) Skimming price is a type of pricing used by companies that have a significant competitive advantage and which can gain maximum revenue advantage before other competitors begin offering similar products or substitutes. It can be the case for innovative electronics entering the marketing before the products are copied by close competitors or Chinese manufacturers.

After being copied, the product loses its premium value and hence the price has to be dropped immediately. Thus, to get maximum margins from their products, innovative companies keep launching new variants so that customers are always in the discovery phase and paying the required premium.

5) Psychological pricing can be translated into a small incentive that can make a huge impact psychologically on customers. Customers are more willing to buy the necessary products at $4,99 than products costing $5. The difference in price is actually completely irrelevant. However, it makes a great difference in the mind of the customers. This strategy can frequently be seen in the supermarkets and small shops.

6) Neutral strategy focuses on keeping the price at the same level for all four periods of the product lifecycl. However, with this type of strategy, there is no opportunity to make higher profits and at the same time, it doesn’t allow for increasing the market share. Also, when the product declines in turnover, keeping the same price effects the margins thereby causing an early demise. This pricing is used very rarely.

7) Captive product pricing is a type of pricing which focuses on captive products accompanying the core products. For example, the ink for a printer is a captive product where the core product is the printer. When employing this strategy companies usually put a higher price on the captive products resulting in increased revenue margins, than on the core product.

8) Optional product pricing can be frequently observed in the case of airline companies. For example, the basic product of KLM Airlines is offering or providing seats in the airplane for different flights. However, once the customers start purchasing these seats, they are offered optional features along with the seats. Examples may be extra seat space, more drinks etc. Because of this optional product, there is more revenue generated from the main product. Customers are willing to spend for the optional product as well.

10) Promotional pricing strategy is just like Bundling price. But here, the products are bundled so as to make the customer use the bundled product for the first time. This type of pricing focuses on buying one, and getting a new type of product for free. Promotional pricing can also serve as a way to move old stock as well as to increase brand awareness.

11) Geographical pricing involves variations of prices depending on the location where the product and service is being sold and is mostly influenced by the changes in the currencies as well as inflation. An example of geographic pricing can also be the sales of heavy machinery, which are sold after considering the transportation cost of different locations. Click here to read more on geographical pricing strategy.

Depending on the goals and objectives of your company, and the strategies decided by your company, you can use any of the 11 types of pricing mentioned above. One can identify what strategy should be applied by analyzing the market and also the product/service lifecycle they are present in.

Pricing Strategies

Good pricing strategies help in determining the price point at which one can maximize profits on the sale of its goods or services. While setting prices, one needs to consider various factors like demand and supply of goods or services in the market, selling and distribution cost, offerings of competitors in the market, target customers, etc.

Types of Pricing Strategies

- Cost-plus Pricing
- Limit Pricing
- Penetration Pricing
- Price Discrimination
- Psychological Pricing
- Dynamic Pricing
- Price Leadership
- Target Pricing
- Absorption Pricing
- High-low Pricing
- Marginal Cost Pricing

1. Cost-plus Pricing

It is the simplest pricing method. The firm calculates the cost of producing the good and adds on a percentage (profit) to that price to give the selling price.

2. Limit Pricing

A limit price is a price set by a monopolist to discourage economic entry into a market. The limit price is often lower than the average cost of production.

3. Penetration Pricing

Setting the price lower than what it is offered by other competitors in order to attract customers and gain market share. The price can be raised later once this market share is gained.

4. Price Discrimination

Price discrimination is setting a different price for the same product in different segments to the market. For example, this can be for different classes of buyers, such as ages, or for different opening times.

5. Psychological Pricing

In this pricing designed to have a positive psychological impact on the customers. For example, selling goods on profit at ₹ 4.95 or ₹ 4.99, rather than ₹ 5.00.

6. Dynamic Pricing

A flexible pricing mechanism made possible by advances in information technology and this strategy is mostly employed by internet-based companies.

7. Price Leadership

In oligopolistic business market usually, the dominant competitor among several leads the way in determining prices, and the others soon follow.

8. Target Pricing

Target pricing is a pricing method whereby the selling price of a product is calculated to produce a particular rate of return on investment for a specific volume of production.

Companies with high capital investment and public utilities like gas and electrical companies use this strategy.

9. Absorption Pricing

It is a method of pricing which recovers all costs. The price of the goods or services includes the variable cost of each item plus a proportionate amount of the fixed costs and is a form of cost-plus pricing.

10. High-low Pricing

High-Low pricing is a method of pricing where the goods or services offered by the organization are regularly priced higher than competitors, but through promotions, advertisements, and coupons, lower prices are offered on key items.

11. Marginal Cost Pricing

This pricing method is a practice of setting the price of products and goods to be equal to the additional cost of producing an extra unit of output.

Examples of Pricing Strategies

Examples of Pricing Strategies

Give an example each of psychological pricing, penetration pricing, cost-plus pricing, and limit pricing.

Ans.

Selling goods for ₹ 999, rather than ₹ 1000 is psychological pricing.

Selling goods at price ₹ 45 than what its competitors are offering ₹ 50 or ₹ 55 in the market. This pricing strategy is penetration pricing which increases market share.

A produces a good and cost of producing such good is ₹ 100. It then adds 20% to the cost of goods (100 + 20% = 120) and sells the good in the market at ₹ 120. This is cost-plus pricing.

Suppose, that the average cost of producing a good is ₹ 80, but the price of good offered in the market is ₹ 75 which is lower than the average cost of the good. This type of pricing is limit pricing and it discourages competitors entry into the market.