

Chapter 19—Pricing Concepts

TRUE/FALSE

1. Price is defined as the perceived value of a good or service that is exchanged for a certain dollar amount.

ANS: F

Price is not necessarily measured in terms of money. In bartering, other items of value may be exchanged.

PTS: 1 REF: 301 OBJ: 19-1 TOP: AACSB Reflective Thinking
KEY: CB&E Model Pricing MSC: BLOOMS Knowledge

2. Profit is the price charged to customers multiplied by the number of units sold.

ANS: F

This is revenue. Profit is revenue minus expenses.

PTS: 1 REF: 302 OBJ: 19-1 TOP: AACSB Reflective Thinking
KEY: CB&E Model Pricing MSC: BLOOMS Knowledge

3. Today's firms must develop specific, measurable, and attainable pricing objectives if they hope to survive in highly competitive markets.

ANS: T

PTS: 1 REF: 302 OBJ: 19-2
TOP: AACSB Reflective Thinking KEY: CB&E Model Pricing
MSC: BLOOMS Comprehension

4. A marketer using a profit maximization strategy will charge the highest prices the market will bear.

ANS: F

Profit maximization means setting prices so that total revenue is as large as possible relative to costs.

PTS: 1 REF: 302 OBJ: 19-2 TOP: AACSB Reflective Thinking
KEY: CB&E Model Pricing MSC: BLOOMS Comprehension

5. Target return on investment is the most common profit objective used by firms.

ANS: T

PTS: 1 REF: 303 OBJ: 19-2
TOP: AACSB Reflective Thinking KEY: CB&E Model Pricing
MSC: BLOOMS Comprehension

6. Sales-oriented pricing objectives are based either on market share or dollar or unit sales.

ANS: T

PTS: 1 REF: 303 OBJ: 19-2
TOP: AACSB Reflective Thinking KEY: CB&E Model Pricing
MSC: BLOOMS Comprehension

7. Maximization of cash should be a long-term objective.

ANS: F

Maximization of cash should never be a long-run objective because cash maximization may mean little or no profitability. Without profits, a company cannot survive.

PTS: 1 REF: 305 OBJ: 19-2 TOP: AACSB Reflective Thinking
KEY: CB&E Model Pricing MSC: BLOOMS Comprehension

8. Status quo pricing objectives suggest that the firm should try to keep its price consistent regardless of what competition does with its prices.

ANS: F

Status quo pricing seeks to maintain existing prices or to meet the competition's prices.

PTS: 1 REF: 305 OBJ: 19-2 TOP: AACSB Reflective Thinking
KEY: CB&E Model Pricing MSC: BLOOMS Knowledge

9. When pricing goals are mainly sales oriented, cost considerations usually dominate.

ANS: F

When pricing goals are mainly sales oriented, demand considerations usually dominate.

PTS: 1 REF: 305 OBJ: 19-3 TOP: AACSB Reflective Thinking
KEY: CB&E Model Pricing MSC: BLOOMS Comprehension

10. Profit maximization is the price at which supply and demand are equal, and there is no inclination for prices to rise or fall.

ANS: F

Price equilibrium is the price at which supply and demand are equal, and there is no inclination for prices to rise or fall.

PTS: 1 REF: 306 OBJ: 19-3 TOP: AACSB Reflective Thinking
KEY: CB&E Model Pricing MSC: BLOOMS Knowledge

11. If demand for milk is inelastic, consumers will not change their purchasing habits greatly when the price of milk changes.

ANS: T

PTS: 1 REF: 307 OBJ: 19-3
TOP: AACSB Reflective Thinking KEY: CB&E Model Pricing
MSC: BLOOMS Application

12. If the formula for elasticity results in a measure of elasticity (E) greater than 1, demand is said to be inelastic.

ANS: F

If E is greater than 1, demand is elastic.

PTS: 1 REF: 307 OBJ: 19-3 TOP: AACSB Reflective Thinking

KEY: CB&E Model Pricing

MSC: BLOOMS Analysis

13. If the formula for elasticity results in a measure of elasticity (E) equal to 1, the increase in sales exactly offsets the decrease in price, so total revenue remains the same.

ANS: T

PTS: 1

REF: 307

OBJ: 19-3

TOP: AACSB Reflective Thinking

KEY: CB&E Model Pricing

MSC: BLOOMS Analysis

14. When many substitute products are available, demand is inelastic.

ANS: F

Demand is elastic when there are many substitute products available.

PTS: 1

REF: 308

OBJ: 19-3

TOP: AACSB Reflective Thinking

KEY: CB&E Model Pricing

MSC: BLOOMS Comprehension

15. Yield management systems (YMS) were first used by Internet service providers.

ANS: F

Yield management systems (YMS) were first developed in the airline industry.

PTS: 1

REF: 308

OBJ: 19-4

TOP: AACSB Reflective Thinking

KEY: CB&E Model Pricing

MSC: BLOOMS Comprehension

16. Yield management systems can only be used by service industries.

ANS: F

As the popularity of yield management systems increases, their use is spreading to manufacturing (in terms of production capacity).

PTS: 1

REF: 308

OBJ: 19-4

TOP: AACSB Reflective Thinking

KEY: CB&E Model Pricing

MSC: BLOOMS Comprehension

17. Firms that price their products solely on the basis of costs are adhering to the marketing concept.

ANS: F

Firms pricing their products solely on the basis of costs are not following the marketing concept.

PTS: 1

REF: 309

OBJ: 19-5

TOP: AACSB Reflective Thinking

KEY: CB&E Model Pricing

MSC: BLOOMS Comprehension

18. Variable costs vary with changes in the level of output, whereas marginal costs do not vary as output changes.

ANS: F

While variable costs do vary with changes in the level of output, marginal costs are the changes in total costs associated with a one-unit change in output.

PTS: 1

REF: 309

OBJ: 19-5

TOP: AACSB Reflective Thinking