

# CHAPTER 11

## The Price Strategy

**A. Match each definition in the left column with the correct term from the right column. Write the letter of the term in the space provided.**

- |   |                          |
|---|--------------------------|
| _____ 1. pricing based on the belief that customers' base perceptions of a product on price     | a. price skimming        |
| _____ 2. employs higher-than-average prices to suggest exclusiveness and status                 | b. promotional pricing   |
| _____ 3. number of units of a product that, when sold at a given price, covers production costs | c. markup                |
| _____ 4. charging a high price to recover costs as quickly as possible                          | d. penetration pricing   |
| _____ 5. the amount added to the cost of an item to cover expenses and ensure a profit          | e. discount pricing      |
| _____ 6. builds sales by charging a low initial price to keep unit costs low                    | f. psychological pricing |
| _____ 7. pricing that offers customers reductions from the regular price                        | g. break-even point      |
| _____ 8. offers lower prices for a limited period to generate sales                             | h. prestige pricing      |

**B. In the space at the left, write the letter of the choice that best completes the statement or answers the question.**

- \_\_\_\_\_ 9. If the demand for a product is high and supply is low, you can command a
- |                |                    |
|----------------|--------------------|
| a. high price. | c. discount price. |
| b. low price.  | d. markdown price. |
- \_\_\_\_\_ 10. Uses odd prices (\$19.99) to suggest bargains and even prices (\$20) to suggest higher quality.
- |                        |                     |
|------------------------|---------------------|
| a. promotional pricing | c. prestige pricing |
| b. odd/even pricing    | d. price lining     |
- \_\_\_\_\_ 11. Price strategy review should focus on basic strategies, policy review, and
- |                        |                    |
|------------------------|--------------------|
| a. discount pricing    | c. pricing tactics |
| b. penetration pricing | d. market prices   |
- \_\_\_\_\_ 12. Amount or percentage by which a business lowers its retail prices in order to move merchandise
- |             |                       |
|-------------|-----------------------|
| a. markup   | c. break-even         |
| b. markdown | d. cost-based pricing |

- \_\_\_\_ 13. Determining a price strategy involves which of the following?  
 a. selecting a basic approach to pricing      c. identifying effective pricing tactics  
 b. determining a pricing policy                  d. all of the above
- \_\_\_\_ 14. This pricing strategy dictates that you consider your business costs and your profit objectives.  
 a. demand-based pricing                          c. basic pricing  
 b. competition-based pricing                      d. cost-based pricing
- \_\_\_\_ 15. A pricing policy that allows customers to bargain for price.  
 a. flexible-price                                      c. cost-based  
 b. one-price    d. competition-based
- \_\_\_\_ 20. To increase profits on individual sales, one can increase  
 a. revenue.    c. demand.  
 b. discounts.    d. prices.

C. In the space provided, write the word (or words) from the list that will best complete each statement.

pricing structure	supply and demand	elastic	return-on-investment
demand-based	one-price	price lining	inelastic

17. The law of \_\_\_\_\_ also affects prices.
18. \_\_\_\_\_ prices items according to category.
19. The costs of a product are affected by the \_\_\_\_\_ in the distribution channel.
20. There are three basic price strategies entrepreneurs can use when pricing their products: cost-based, \_\_\_\_\_, and competition-based pricing.
21. A (n) \_\_\_\_\_ policy is one in which all customers are charged the same for a product.
22. If a price is \_\_\_\_\_, a small change in price may cause a significant change in demand.
23. The profitability objective involves pricing products to obtain a certain percentage \_\_\_\_\_.
24. If a price is \_\_\_\_\_, changing the price will have little or no effect on demand.

D. On a separate sheet of paper, write a 100-word paragraph that answers this question.

25. Explain how the life cycle of a product affects the pricing strategy.

Score (number correct x 4 points) = \_\_\_\_\_