ch17

Student: _____

1. Cost-oriented approaches are the most common price setting approach.

   True False

2. A markup is the dollar amount added to the cost of products to get the selling price.

   True False

3. By definition, a markup of $1 on a cost of $2 translates to a markup of 40 percent.

   True False

4. According to the text, markup (percent) means percentage of cost unless otherwise stated.

   True False

5. If a retailer adds a 25-cent markup to a product which costs the retailer $1.00, then according to the text the retailer's markup is 20 percent.

   True False

6. If a retailer adds a 25-cent markup to a product which costs the retailer $1.00, then according to the text the retailer's markup is 25 percent.

   True False

7. Most retailers and wholesalers set prices by using a different markup percent for each different product carried.

   True False

8. A "markup chain" can be used to calculate the price structure in a whole channel.

   True False

9. A certain item has a production cost of $24. The manufacturer takes a 25 percent markup, the wholesaler takes a 20 percent markup, and the retailer takes a 50 percent markup. Therefore, the item has a retail selling price of $80.

   True False

10. High markups always mean big profits.

    True False

11. Retailers who earn high profits generally use higher markups than retailers who have low profits.

    True False

12. Items with lower markups may be more profitable--if the stockturn is higher.

    True False

13. Firms with high markups and low turnover rates may earn lower profits than firms with low markups and high turnover rates.

    True False

14. The stockturn rate is the number of times the average inventory must turnover to make a profit in a given year.

    True False

15. A low stockturn decreases inventory carrying cost and frees up working capital.

    True False

16. A supermarket is bound to expect a higher stockturn for fresh fruits and vegetables compared to soaps and detergents.

    True False

17. Average-cost pricing consists of adding a 20 percent markup to the average cost of an item.

    True False

18. Average-cost pricing means adding a reasonable markup to the total cost of a product.

    True False

19. Average-cost pricing guarantees that the firm will earn enough to at least cover its costs.

    True False

20. A major problem with average-cost pricing is that it does not allow for cost variations at different levels of output.

    True False

21. A major advantage of average-cost pricing is that it assumes costs remain constant at different levels of output.

    True False

22. Total fixed costs do not change when output increases.

    True False

23. At zero output, total variable cost is zero.

    True False

24. A firm's total cost increases only when its variable cost increases.

    True False

25. Changes in total cost depend on variations in total variable cost, since total fixed cost stays the same.

True False

26. Average fixed cost goes down as output decreases.

True False

27. If a firm's average variable cost is constant per unit, then the firm's average cost decreases continually as output increases because average fixed cost decreases continually.

True False

28. A firm's average fixed cost increases as its output increases.

True False

29. Average fixed costs are lower when a large quantity is produced.

True False

30. As output increases, a firm's average fixed cost probably will go down.

True False

31. Even if a firm's average variable cost remains constant per unit, its average cost will increase as output increases.

True False

32. Ignoring demand is the major weakness of average-cost pricing

True False

33. If a manager sells more than was expected when average-cost pricing was used to set a price, the firm will lose money.

True False

34. Average-cost pricing works well if the firm actually sells the quantity which was used in setting the price, but losses may result if actual sales are much higher than were expected--due to higher total variable costs.

True False

35. When setting prices, the marketing manager should consider the firm's demand curve, or else the price may not even cover the firm's total cost.

True False

36. Average-cost pricing works best in situations where demand conditions do not change a lot.

True False

37. An advantage of average-cost pricing is that it considers competitors' costs and prices.

True False

38. Break-even analysis evaluates whether the firm will be able to cover all its costs with a particular price.

True False

39. The break-even point is the intersection of the total cost curve and the total profit curve.

True False

40. If the price per unit is $1.00 and the average variable cost per unit is 60 cents, the fixed cost contribution per unit is $1.40.

True False

41. Each possible price has its own break-even point

True False

42. If a company raises its price per unit, but keeps total fixed cost and variable cost per unit the same, the break-even point will be lower.

True False

43. Break-even analysis is particularly accurate because it recognizes that the demand curve is downward sloping.

True False

44. Marginal analysis focuses on the changes in average fixed cost per unit and average variable cost from selling one more unit to find the most profitable price and quantity.

True False

45. There is only one price that will be profitable for firms with down-sloping demand curves.

True False

46. Even if a manager's estimate of a demand curve is not exact, there is usually a profitable range around the price that would maximize profit.

True False

47. Marketing managers wish they knew more about price sensitivity, but so far marketing research has been little help in identifying factors that influence customers.

True False

48. When customers have substitute ways of meeting a need, they are likely to be more price sensitive.

True False

49. When customers have to pay the bill themselves, they are likely to be more price sensitive.

True False

50. The greater the total expenditure, the less price sensitive customers are.

True False

51. When the end benefit of a purchase is significant to the customer, he is likely to be less price sensitive.

True False

52. Business customers are sometimes less price sensitive if there are switching costs.

True False

53. Value in use pricing considers what a customer will save by buying a product.

True False

54. Auctions have not proved very effective in determining how much potential customers will (or will not) pay for a product.

True False

55. Online auctions (on the Internet) are becoming very popular as a way to determine how much customers are willing to pay for a product.

True False

56. A firm using sequential price reductions starts with a high price but plans to reduce that price step-by-step until its product is sold out.

True False

57. Sequential price reductions and clearance sales are the same thing.

True False

58. All customers have the same reference price for the same basic type of purchase.

True False

59. The price most consumers expect to pay for a product is called the leader price.

True False

60. The sole objective of leader pricing is to sell large quantities of the leader items.

True False

61. Leader pricing is typically used with well-known, widely used items which are not stocked heavily by consumers.

True False

62. It makes sense for a manager to use leader pricing on a product only if consumers are unlikely to be aware of the normal price.

True False

63. Leader pricing is normally used with products for which consumers do have a specific reference price.

True False

64. A major difference between leader pricing and bait pricing is that bait pricing is criticized as unethical while leader pricing is not.

True False

65. The Federal Trade Commission encourages bait pricing because it reduces the prices that consumers pay for products.

True False

66. "Psychological pricing" involves setting prices which end in certain numbers, while "odd-even pricing" is setting prices which have special appeal to target customers.

True False

67. If Radio Shack offers several models of clock radios at each $5 increment between $19.95 and $49.95, it is probably practicing odd-even pricing.

True False

68. The major disadvantage of price lining is that it is complicated for both clerks and customers.

True False

69. Price lining tends to result in faster turnover, fewer markdowns, quicker sales, and simplified buying.

True False

70. Demand-backward pricing is commonly used by producers of consumer products, especially shopping products such as women's clothing and appliances.

True False

71. "Demand-backward pricing" involves a producer estimating an acceptable final consumer price and working backward to determine what the producer can charge in the channel.

True False

72. Demand estimates are required for demand-backward pricing to be successful.

True False

73. Prestige pricing is most common for luxury products such as furs, jewelry, and perfume.

True False

74. Prestige pricing involves setting a rather high price because the product has a normal down-sloping demand curve.

True False

75. "Full-line pricing" is setting prices for a whole line of products.

True False

76. With complementary product pricing, different price levels are set on different products because the products are targeted at different market segments.

True False

77. Product-bundle pricing may encourage customers to spend more and buy products that they would not buy otherwise.

True False

78. Bid pricing is offering a specific price for each possible job, rather than setting a price that applies to all potential customers.

True False

79. With bid pricing, it is best for the bidder to use the same overhead and profit rates on all jobs since that will make it easy to estimate costs and eventually will increase profits.

True False

80. Competition needs to be considered when adding in overhead and profit for a bid price.

True False

81. According to the text, the two basic approaches to price setting are

A. supply-oriented and demand-oriented price setting.
B. cost-oriented and demand-oriented price setting.
C. sales-oriented and profit-oriented price setting.
D. cost-oriented and profit-oriented price setting.
E. Average-cost pricing and break-even analysis.

82. Most firms in the business world set their prices using:

A. federal price guidelines.
B. demand-oriented price setting.
C. cost-oriented price setting.
D. supply and demand analysis.
E. marginal analysis.

83. A _____ is a dollar amount added to the cost of products to get the selling price.

A. markup
B. rebate
C. list price
D. spiff
E. deal

84. All of the following observations concerning markups are true except

A. they guide pricing by intermediaries.
B. they are used by most retailers and wholesalers to set prices.
C. they are a cost-oriented price setting approach.
D. they are usually stated as dollar amounts.
E. they are related to selling price for convenience.

85. The text says "markup" means percent of:

A. "mark-on."
B. selling price--unless otherwise stated.
C. fixed cost.
D. delivered cost--unless otherwise stated.
E. cost of sales.

86. The text says "markups":

A. should always be stated as a percentage of cost.
B. are a percentage of selling price--unless otherwise stated.
C. are never stated as a percentage of cost.
D. should never be stated in dollar amounts.
E. All of the above except B.

87. The typical markup (percent) is the:

A. cost of an item divided by its selling price--times 100.
B. selling price minus the cost of the item, divided by the cost of the item--times 100.
C. selling price of an item, divided by its cost--times 100.
D. selling price minus the cost of the item, divided by the selling price--times 100.
E. selling price minus the cost of the item, divided by the average fixed cost--times 100.

88. A retailer buys a particular product for $4. To make a profit, the retailer adds $2 to cover operating expenses and provide a profit. The percentage markup on the $6 selling price is

A. 50 percent.
B. 33.33 percent.
C. 100 percent.
D. 20 percent.
E. 25 percent.

89. A retailer pays a wholesaler $24.00 for an item and then sells it with a 25 percent markup. The retailer's selling price is:

A. $32.00.
B. $56.00.
C. $48.00.
D. $30.00.
E. None of the above.

90. An item costs a retailer $140. If a 30 percent markup is desired, what should the retail selling price be?

A. $191.00
B. $242.00
C. $182.00
D. $140.30
E. $200.00

91. The Horizons Cycle Shop bought 3 motorcycles for $2,100, and sold each one for $1,000. The markup percent was:

A. 33 1/3.
B. 30.
C. 142.
D. 50.
E. There is not enough information to tell.

92. Michael Soles--owner of Soles Shoe Store--recently discovered that shoe stores in his trading area have an average markup of 40 percent. Upon investigation, Michael found that his average markup is $15 on shoes that he sells for $45. This suggests that:

A. Michael has higher-than-average costs.
B. Michael is pricing his products higher than his competitors.
C. Michael is taking a smaller average markup than his competitors.
D. Michael has a relatively high stockturn rate.
E. Michael's markups in dollar amounts are about the same as his competitors.

93. Different firms in the same line of business are likely to use the same markup percent:

A. because they all want to have the same selling price.
B. because this is a government requirement.
C. because they are likely to have similar operating expenses.
D. because this is what is acceptable to manufacturers.
E. only if they are in pure competition.

94. A standard markup is often set close to the firm's

A. gross margin.
B. net profits.
C. overheads.
D. operating costs.
E. competitors' costs.

95. Gross margin is expressed as

A. gross sales minus accounts receivable.
B. net sales minus contribution margin.
C. net margin minus sales and operating expenses.
D. net sales minus administrative expenses.
E. net sales minus cost of goods sold.

96. The markup approach to price setting used by most intermediaries:

A. makes little sense--given the large number of items carried and the small sales volume of any one item.
B. is very inflexible because the same markup percent must be applied to all products.
C. often uses the trade (functional) discount allowed by the manufacturer.
D. is quite complicated--because each product has a different delivered cost.
E. All of the above.

97. The sequence of markups firms use at different levels in a channel is referred to as a(n)

A. market sequence.
B. markup chain.
C. markup margin.
D. standard markup.
E. markup channel.

98. A markup chain:

A. only applies to consumer products, not to business products.
B. implies that a retailer must always apply a smaller markup than a wholesaler.
C. causes lower prices in longer channel systems.
D. determines the price structure in a channel of distribution.
E. None of the above is true.

99. The production cost of an automobile component is $45. The producer takes a 10 percent markup and sells the product to the wholesaler. What is the wholesaler's cost?

A. $45
B. $5
C. $10
D. $50
E. $60

100. Blue Ridge Weavers wants to set its selling price on an item so that the retail list price will be $50--taking into account the usual markups of 10 percent at wholesale and 30 percent at retail. At what price should Blue Ridge Weavers sell the item?

A. $32.50
B. $31.50
C. $35.00
D. $34.00
E. $38.00

101. High Meadow Mfg. Co. sold its product through wholesalers and retailers--allowing the wholesalers a markup of 25 percent and retailers a markup of 40 percent. If the retail selling price is $100 and the manufacturer's cost is $30, what markup in dollars did High Meadow receive on the sale of this product?

A. $5.00
B. $13.50
C. $15.00
D. $10.00
E. $20.00

102. TopKnotch Mfg. Co. has a production cost of $280. It sells its product to a wholesaler for $400. The wholesaler then sells the item to retailers for $500 and the retailers sell the item for $1,000. Which of the following is true about this "markup chain?"

A. The wholesaler's markup is 25 percent.
B. The manufacturer is taking a markup of 30 percent.
C. The retailers' markup is 100 percent.
D. All of the above are true.
E. None of the above is true.

103. Wilson sells a basketball to a wholesaler for $16, and the wholesaler applies a 20 percent markup. A retailer then applies a 33.3 percent markup. The final selling price is:

A. $24.53.
B. $30.00.
C. $25.59.
D. $28.00.
E. Cannot be determined from the information given.

104. A producer makes an item for $32 and sells it with a 50 percent markup to a wholesaler. The wholesaler then applies a 20 percent markup. A retailer then uses a 60 percent markup. The final retail selling price is:

A. $200.00.
B. $73.60.
C. $64.00.
D. $80.00.
E. Cannot be determined without stockturn information.

105. It costs a producer $400 to manufacture a product that is distributed through wholesalers and retailers. The markups at the producer, wholesaler, and retailer levels are 20%, 20% and 50%, respectively. The wholesaler's selling price for the product is _____, and the retailer's selling price is: _____.

A. $625; $1250
B. $576; $864
C. $480; $576
D. $500; $625
E. Cannot be determined from the information provided

106. Which of the following is a TRUE statement about markups?

A. A firm can lose money even when using a high markup.
B. Markup percents are computed as a percent of the cost of the product.
C. It's easier for a producer to administer the prices consumers pay for products if the markup used varies from one intermediary to the next.
D. The lower the markup, the lower the profit.
E. None of the above is true.

107. An intermediary seeking high profits should:

A. use the lowest markup that will still cover selling expenses.
B. use price lining.
C. use high markups.
D. choose the markup which maximizes turnover.
E. try to find the markup level related to the most profitable price.

108. High markups on a product could lead to low profits when

A. competitors have higher markups.
B. there are no substitutes.
C. demand is inelastic.
D. sales dip due to high prices.
E. supply is inelastic.

109. The stockturn rate is

A. the firm's ability to meet its short-term financial obligations.
B. the number of days that credit sales remains in receivables.
C. the number of times the average inventory is sold in a year.
D. the difference between net sales and cost of goods sold.
E. the ratio of sales to inventory.

110. "Stockturn rate" means:

A. the number of days required to sell a given output of products.
B. the amount of time needed to sell every item in a retailer's inventory.
C. the number of times the average inventory is sold in a year.
D. the rate at which products enter and leave an intermediary's establishment.
E. All of the above.

111. The number of times an intermediary's average inventory is sold in a year is called the:

A. stockturn rate.
B. asset factor.
C. inventory ratio.
D. markup ratio.
E. ROI (return on inventory).

112. A low stockturn rate

A. is extremely good for profits.
B. decreases inventory carrying cost.
C. ties up working capital.
D. is usually linked with very low markups.
E. is typical of fresh fruits and vegetables.

113. A high stockturn rate:

A. is only possible with a low markup percent.
B. is likely to result in low profits.
C. reduces the inventory investment and can improve profits.
D. increases the space needed for inventory.
E. None of the above is true.

114. Retailers of which of the following products would probably have the highest stockturn rate?

A. furniture
B. women's clothing
C. hardware
D. fresh seafood
E. bowling balls

115. Best Buy sets its prices below other electronics stores in its service area and generally attracts more customers than the others. Best Buy apparently hopes to earn a profit by

A. achieving status quo pricing objectives.
B. setting prices based on "value in use."
C. relying on a high margin percent.
D. being the price leader in an oligopoly market.
E. achieving a high stockturn rate.

116. Regarding markups and turnover:

A. high markups usually lead to high profits.
B. speeding turnover usually decreases profits.
C. items sold at low markups (e.g., 20 percent) cannot be profitable.
D. depending on the industry--a stockturn rate of 1 or 2 may be quite profitable.
E. All of the above.

117. With respect to markups and turnover, a marketing manager should be aware that:

A. a low stockturn rate increases inventory carrying costs.
B. depending on the industry, a stockturn rate of 2 or 3 may be quite profitable.
C. high markups don't always mean big profits.
D. speeding turnover often increases profits because the firm's operating costs are a function of time and the volume of goods sold.
E. All of the above are true statements.

118. Regarding markups and turnover:

A. supermarket operators have found that high-margin products are generally more profitable that low-margin products.
B. higher markups do not always lead to higher profits.
C. low stockturn rates increase costs by tying up working capital in inventory.
D. to earn higher profits, all firms should lower their markups and seek faster turnover.
E. Both B and C.

119. A firm with a stockturn rate of 4 sells products that cost it $100,000. This requires _____ worth of inventory.

A. $25,000
B. $20,000
C. $80,000
D. $400,000
E. $50,0000

120. A firm with a stockturn rate of 5 sells products that cost it $100,000. Its annual inventory carrying cost is about 20 percent of the inventory value. What is its annual inventory carrying cost?

A. $5,000
B. $4,000
C. $8,000
D. $20,000
E. $100,000

121. If a retailer's annual stockturn rate shifted to 20 from 5, then selling products costing $100,000 would require _____ rather than $20,000 in working capital to carry the needed inventory.

A. $10,000
B. $80,000
C. $8,000
D. $500
E. $5,000

122. A regional manager for a chain of auto parts stores visits one of the stores in the chain. He looks in the store's warehouse and finds about 100 cases of motor oil that have been sitting in the warehouse for over one year. Upon inspection, he finds that in each case, one of the twelve cans of oil has leaked, thus soaking through the box and making the case unfit for sale. The regional manager instructs the store manager to unpack all of the cases, discard the leaking cans, clean up the remaining cans, and to contact the oil company for new boxes. He tells the store manager to repackage the remaining cans in the new boxes and to sell the cases to customers at the retailer's cost with no added markup. He explains to the store manager that moving this inventory will not result in immediate profit, but that it will benefit the store by improving the:

A. Markup.
B. Markup rate.
C. Markup percent.
D. Stockturn rate.
E. Break-even point.

123. Setting prices by adding a "reasonable" markup to a firm's average cost is called:

A. break-even pricing.
B. add-on pricing.
C. target-return pricing.
D. average-cost pricing.
E. marginal analysis.

124. Average-cost pricing:

A. consists of adding a "reasonable" markup to the average cost of a product.
B. puts a great deal of emphasis on determining how sensitive consumer demand is at different price levels.
C. does not consider cost variations at different levels of output.
D. focuses on the differences between fixed and variable costs.
E. Both A and C are true.

125. A disadvantage of average-cost pricing is that it

A. does not consider historical values.
B. is a highly complicated method of pricing.
C. is rarely a useful input to pricing decisions.
D. is easy to lose money with average-cost pricing.
E. does not help understand how costs operate at different levels of output.

126. Mark is trying to determine his firm's average cost per unit of production. He finds that the cost for all labor and materials is $80,000 and fixed overhead expenses are $40,000. If the company produces 20,000 items in the time period, the average cost is

A. $12.
B. $2.
C. $6.
D. $4.
E. $10.

127. A producer incurred costs of $54,000 for labor and materials and $26,000 for fixed overhead expenses in a year. The firm produced 20,000 units during the year. If the producer desires a profit of $1 per unit in the coming year, what should the producer's selling price be using average-cost pricing?

A. $3.70.
B. $2.30.
C. $5.00.
D. $6.00.
E. Cannot be determined from the information provided.

128. Average-cost pricing:

A. May be very profitable if actual sales are higher than expected.
B. May lose money for the firm is actual sales are less than expected.
C. Does not take demand into account in setting prices.
D. Is simple in theory but often fails in practice.
E. All of the above.

129. The basic problem with the average-cost approach is that it

A. does not consider cost variations at different levels of output.
B. does not consider historical values.
C. does not add a reasonable markup to the average cost of a product.
D. is not commonly used.
E. is a complex method.

130. Average-cost pricing may lead to losses because there are a variety of costs—and each changes

A. in a similar fashion.
B. in a different way as output changes.
C. in a similar fashion with time.
D. in an exponential manner.
E. in a highly predictable and similar manner.

131. Total fixed cost:

A. is the sum of all expenses which are closely related to output.
B. is the sum of those costs which do not change in total no matter how much is produced.
C. may vary in the short run--but is more or less fixed in the long run.
D. is the sum of all costs of manufacturing and distributing a product.
E. would be zero if the quantity produced were zero.

132. The sum of those costs that do not change in total--no matter how much is produced--is called:

A. total fixed cost.
B. total cost.
C. total variable cost.
D. total direct cost.
E. both A and C.

133. Total fixed cost

A. is dependent on production volumes.
B. stays the same even if production stops temporarily.
C. includes wages and sales commissions.
D. is the sum of average fixed costs and variable overheads.
E. is dependent on minor changes in output volume.

134. Which of the following is an example of a fixed cost?

A. Wages
B. Outgoing freight
C. Depreciation
D. Sales commissions
E. Packaging material expense

135. Which of the following would NOT be included in a producer's total fixed cost?

A. Rent
B. Property taxes
C. Insurance
D. Depreciation
E. Component parts

136. The sum of those changing expenses which are closely related to output is called:

A. total fixed cost.
B. total cost.
C. total overhead cost.
D. total variable cost.
E. Both C and D.

137. Total variable cost:

A. is zero when the quantity produced is zero.
B. is the sum of those changing expenses that are closely related to output.
C. may decrease as the quantity produced is increased.
D. All of the above are true.
E. Both A and B are true.

138. A sales rep is paid a commission on each product sold. The commission is:

A. part of the total fixed cost.
B. part of the total variable cost.
C. not included in figuring average cost.
D. part of the total cost, but not specifically a fixed cost or a variable cost.
E. None of the above is true.

139. Which of the following would NOT be included in a firm's total variable cost?

A. Outgoing freight
B. Packaging materials
C. Depreciation on buildings
D. Expenses for parts
E. Sales commissions

140. Which of the following is an example of a variable cost for a producer?

A. Depreciation.
B. Managers' salaries.
C. Rent.
D. Packaging materials.
E. Property taxes.

141. Henry has classified the following items under variable costs. Which item has he classified incorrectly?

A. Expenses for parts
B. Wages
C. Outgoing freight
D. Property taxes
E. Packaging material expense

142. At zero output, total variable cost is

A. higher than total fixed cost.
B. equal to total fixed cost.
C. unity.
D. zero.
E. substantial.

143. Total cost:

A. increases directly with increases in total variable cost.
B. is zero at zero output.
C. is fixed in total no matter how much is produced.
D. increases directly with increases in total fixed cost.
E. All of the above are true except A.

144. Which of the following costs do not change with an increase in output?

A. Total variable cost
B. Total fixed cost
C. Total cost
D. Average total cost per unit
E. Average fixed cost per unit

145. Average cost is obtained by dividing:

A. total fixed cost by the related quantity.
B. marginal cost by marginal revenue.
C. total cost by the related quantity.
D. average fixed cost and average variable cost by the quantity produced.
E. total variable cost by the related quantity.

146. Which of the following costs decrease with increase in output?

A. Total variable cost
B. Total fixed cost
C. Total cost
D. Average fixed cost per unit
E. Sales commissions

147. As output increases, average cost decreases continually because

A. average variable cost per unit is increasing.
B. average fixed cost per unit is decreasing.
C. total variable cost is increasing.
D. total variable cost is decreasing.
E. total fixed cost is reducing.

148. Average fixed costs:

A. increase as the quantity produced increases.
B. decline for a while as output increases and then begin to rise again.
C. decrease steadily as output increases.
D. are less than average variable costs at all output levels.
E. Both C and D.

149. When a firm's average variable cost is constant--no matter how much is produced--then the firm's:

A. average cost will increase as the quantity produced increases.
B. fixed cost must be zero.
C. average cost will also be constant.
D. average fixed cost will also be constant.
E. average cost will decrease as the quantity produced increases.

150. A college "marketing club" printed 1,000 "We're Number 1" bumper stickers for sale at $3.00 each as a fund-raiser. Its fixed costs were $500, and the variable cost for each sticker was $.50. The club's average cost was:

A. $2.00.
B. $2.50.
C. $.50.
D. $1.00.
E. There is not enough information to tell.

151. The total fixed costs are $10,000, and the average variable cost per unit is $3. For a production volume of 10,000 units, the average cost per unit is

A. $3.
B. $1.
C. $4.
D. $3.3.
E. $10.

152. The big problem with average-cost pricing is that:

A. fixed costs are hard to estimate.
B. it ignores the firm's demand curve.
C. it doesn't consider the effect of variable costs.
D. there is no way to include a desired profit per unit.
E. None of the above is true.

153. "Average-cost pricing":

A. will result in losses if actual sales are much higher than expected.
B. might cause a firm to charge too high or too low a price--and reduce its profits.
C. usually assumes the firm will sell a larger quantity than the year before.
D. cannot be profitable--because it ignores demand.
E. All of the above.

154. The major weakness of "average-cost pricing" is that:

A. it ignores likely customer demand at different prices.
B. it usually leads to losses instead of profits.
C. average fixed cost changes at different levels of output.
D. it is too hard for most managers to use.
E. Both A and C.

155. Average-cost pricing will result in larger than expected profit:

A. most of the time.
B. if the average fixed cost estimate is based on a quantity that is smaller than the actual quantity sold.
C. if the average total cost is higher than expected.
D. only if the manager makes arithmetic errors in computing average variable cost.
E. None of the above is correct.

156. Average-cost pricing

A. always results in a profit that is less than what was expected.
B. will work out as expected when the firm's actual average fixed cost per unit is what was estimated when prices were set.
C. sets the price at the point where average fixed cost is equal to average variable cost.
D. ignores variable costs.
E. is the only way to ensure that the firm will set a profitable price.

157. Average-cost pricing

A. will result in disappointing profits when the firm sells more than it expected to sell.
B. will never lead to a higher than expected profit.
C. takes the demand curve into account when calculating a price.
D. is most likely to result in the expected level of profit when demand is inelastic within the range of possible prices.
E. All of the above are true.

158. Identify a weakness of the average-cost approach.

A. It ignores competitors' costs and prices.
B. It does not consider historical values.
C. It does not add a reasonable markup to the average cost of a product.
D. It is not commonly used.
E. It is a complex method.

159. At break-even point (BEP),

A. the firm's total revenue will equal its variable costs.
B. the firm's total sales will equal its total production.
C. the firm's total cost will equal its total revenue.
D. the firm's total profits will equal its total cost.
E. the firm's total variable costs equal its total fixed cost.

160. A firm's "break-even point" is that point where:

A. maximum profit is earned.
B. total variable cost just equals total revenue.
C. the target return on investment is earned.
D. total cost just equals total revenue.
E. Both C and D are true.

161. The BEP, in units, can be found by dividing

A. total fixed costs by the fixed cost contribution per unit.
B. total variable costs by the variable cost contribution per unit.
C. total variable costs by the fixed cost contribution per unit.
D. the assumed selling price per unit by the variable cost per unit.
E. total variable costs by target return.

162. In a typical break-even analysis, a firm's fixed-cost contribution per unit:

A. is the assumed selling price per unit minus the variable cost per unit.
B. is the assumed selling price per unit minus the average fixed cost.
C. usually decreases as the quantity produced increases.
D. is total fixed cost divided by the quantity produced.
E. usually increases as the quantity produced increases.

163. Spruce Pine Mfg. Co. has total fixed costs of $300,000 a year. The owner estimates that average variable costs for its product will be about $30 next year. The selling price to wholesalers will be $50. The break-even point is:

A. 6,000 units.
B. 10,000 units.
C. 12,000 units.
D. 15,000 units.
E. None of the above is correct.

164. You are considering opening a fast-food store. Your fixed costs for the required land, building, parking lot paving, kitchen equipment, and neon sign will be $1,000,000. The variable cost will be $1.89 for servings which will sell for $2.89. How many servings must you sell to break even?

A. 1,000,000
B. 1,200,000
C. 2,890,000
D. 189,000
E. Cannot be determined from the data given.

165. If a firm's total fixed cost is $400,000 and its fixed cost contribution per unit is $10, its break-even in units is:

A. 30,000.
B. 40,000.
C. 10,000.
D. 20,000.
E. Cannot be determined with this information.

166. A company has total fixed cost of $120,000. Its variable cost per unit is $2.00 and its price per unit is $3.50. The break-even point in units is:

A. 60,000.
B. 80,000.
C. 34,286.
D. 21,818.
E. Cannot be determined from the information provided.

167. Given the following data, determine the break-even point in units:
Total fixed cost = $120,000
Variable cost per unit = $0.60
Selling price per unit = $1.10

A. 100,000
B. 240,000
C. 200,000
D. 218,182
E. 50,000

168. Given the following data, compute the BEP in units:
Selling price = $2.00
Variable cost = $0.75
Fixed cost = $250,000

A. 333,334
B. 200,000
C. 125,000
D. 400,000
E. Cannot be determined with this information.

169. The price per unit is $1.00. The average variable cost per unit is 60 cents. The total fixed cost is $20,000. Compute the break-even point.

A. 75,000 units
B. 50,000 units
C. 20,000 units
D. 33,334 units
E. 40,000 units

170. Given the following data, compute the BEP in DOLLARS:
Selling price = $2.00
Variable cost = $1.00
Fixed cost = $150,000

A. $300,000
B. $400,000
C. $100,000
D. $200,000
E. $50,000

171. A company has total fixed cost of $400,000. Its fixed-cost contribution per unit is $10.00, and its price per unit is $5.00. What is the break-even point in sales dollars?

A. $200,000.
B. $2,000,000.
C. $4,000,000.
D. $800,000.
E. Cannot be determined from the information provided.

172. Break-even analysis usually:

A. makes it appear that any quantity can be sold at the assumed price.
B. suggests that profits will grow rapidly as sales volume increases beyond the break-even point.
C. is quite accurate in maximizing profit.
D. assumes a U-shaped average variable cost curve.
E. Both A and B.

173. A typical break-even analysis assumes that:

A. the fixed-cost contribution per unit increases as units sold increases.
B. average fixed cost per unit is the same regardless of quantity sold.
C. demand curves are downward sloping.
D. average variable cost is the same regardless of quantity sold.
E. None of the above is true.

174. Break-even analysis can show:

A. which prices will not be profitable.
B. the most profitable price for a firm's product.
C. how the firm's variable cost per unit will drop as output rises.
D. the firm's most profitable output level.
E. when a firm should cut its price to increase sales.

175. Break-even analysis

A. assumes that the demand curve is perfectly horizontal at the selling price.
B. reveals the price that will earn the highest profit.
C. cannot be used for comparing several different alternatives (for example, assuming different prices).
D. all of the above.
E. none of the above.

176. Break-even analysis can be useful for:

A. estimating future sales.
B. setting the most profitable price.
C. comparing pricing alternatives.
D. relating assumed prices to demand estimates.
E. All of the above.

177. Regarding break-even analysis, a good marketing manager knows that:

A. a high fixed-cost contribution per unit will lead to high profits.
B. assuming a straight-line total revenue curve incorrectly suggests that any quantity can be sold at the assumed price.
C. break-even analysis is useless for comparing pricing alternatives.
D. the usual straight-line total cost curve applies only when economies of scale exist.
E. All of the above are true.

178. Break-even charts usually assume that:

A. total cost and total revenue curves are straight lines.
B. average variable cost is constant per unit.
C. the break-even point is reached when total cost just equals total revenue.
D. any quantity can be sold at the assumed price.
E. All of the above.

179. A typical break-even analysis assumes that:

A. the total revenue curve is a straight line.
B. the demand curve faced by the firm is horizontal.
C. the average variable cost is the same at different levels of output.
D. All of the above.
E. None of the above.

180. Which of the following pricing approaches specifically considers the concept of elasticity of demand?

A. Break-even pricing.
B. Average-cost pricing.
C. Markup pricing.
D. Fixed cost pricing.
E. None of the above.

181. Trying to find the most profitable price and quantity to produce:

A. requires average-cost pricing.
B. requires an estimate of the firm's demand curve.
C. is easy once the average fixed cost is known.
D. is only sensible if demand estimates are exact.
E. All of the above are true.

182. What is the best pricing tool marketers have for looking at costs and revenue at the same time?

A. Break-even analysis
B. Fixed-cost pricing method
C. Average-cost pricing method
D. Marginal analysis
E. Standard markup method

183. The main advantage that marginal analysis has over most other popular pricing methods is that it:

A. Considers both fixed and variable costs.
B. Takes into account the break-even point.
C. Allows managers to evaluate pricing alternatives.
D. Takes into account both costs and demand.
E. Incorporates the markup chain.

184. Marginal analysis

A. assumes that the firm's total revenue curve is a straight line.
B. bases the analysis on the cost of the first few units sold.
C. explicitly considers demand when calculating price.
D. All of the above are correct.
E. None of the above is correct.

185. A firm in monopolistic competition with a down-sloping demand curve:

A. does not have to worry about price competition due to the nature of its demand curve.
B. can use marginal analysis to help it maximize profits.
C. will have to charge the "market price" which is set by the intersection of industry supply and demand.
D. could use marginal analysis to compare alternatives--but this would not help in pricing because this method focuses on selling one more unit and therefore ignores total profitability.
E. All of the above are true.

186. Marginal analysis:

A. can be very useful if a firm's pricing objective is profit maximization.
B. focuses on the last unit which will be sold.
C. can be used to find the most profitable price and quantity.
D. can help find where the difference between total revenue and total cost is greatest.
E. All of the above.

187. The price that maximizes profit is the one that results in the greatest difference between

A. total cost and total fixed cost.
B. total revenue and total cost.
C. average cost and average variable cost.
D. total revenue and average variable cost.
E. total revenue and average fixed cost.

188. In marginal analysis, the profit maximizing point is the point at which:

A. Profit is based on competitive pricing.
B. Total revenue and total cost are equal.
C. The difference between total revenue and total cost is maximized.
D. Profit is based on average-cost pricing.
E. Both A and C.

189. If a profit-oriented marketing manager doesn't know the exact shape of the firm's demand curve, marginal analysis:

A. is useless.
B. may be useful anyway--because a profitable region usually surrounds the best price.
C. will suggest the same price as break-even analysis.
D. suggests that the only sensible approach is to use average-cost pricing.
E. None of the above is true.

190. Marginal analysis

A. reveals the range of prices that should be profitable.
B. can be used to set prices, but it does not give you any idea what quantity might be sold at that price.
C. is not applicable to competitive situations.
D. All of the above are true.
E. None of the above is true.

191. Customers are likely to be less price sensitive when:

A. it is easy to compare prices.
B. someone else pays the bill.
C. the total expenditure is high.
D. there are substitutes available.
E. their share of the cost is high.

192. A publisher needed one of its best-selling authors to fly from his home in Richmond, Virginia to Chicago, Illinois in order to start a publicity campaign for the author's new book. The author could have taken a flight to Detroit, Michigan, changed planes, and then flew on to Chicago for about half the price of a non-stop flight from Richmond to Chicago. However, he chose the non-stop flight. He became less price sensitive because of:

A. The availability of substitutes.
B. The fact that someone else was paying the bill.
C. The significance of the end benefit.
D. The size of the total expenditure.
E. The sunken investment he had made.

193. Customers tend to be more price sensitive

A. the greater the total expenditure.
B. when someone else pays the bill.
C. when someone else shares the cost.
D. the greater the significance of the end benefit of the purchase.
E. the lesser the total expenditure.

194. Customers are likely to be less price sensitive when:

A. the greater the total expenditure.
B. the greater their share of the cost.
C. the greater the significance of the end benefit.
D. the easier it is to compare prices.
E. None of the above.

195. _____ are costs that a customer faces by buying a product that is different from what has been purchased or used in the past.

A. Marginal costs
B. First-mover costs
C. Switching costs
D. Pioneering costs
E. Opportunity costs

196. Customers are likely to be more price sensitive when:

A. the total expenditure is great.
B. they have to pay the bill themselves.
C. the end benefit isn't very significant.
D. they haven't yet spent any money related to the purchase.
E. All of the above.

197. Which of the following applies to "value in use pricing?"

A. How much profit will the firm make?
B. How much will the customer save?
C. What does a competitor offer?
D. How much can the customer afford?
E. What is break-even pricing?

198. Value in use pricing

A. does not vary from one product to another.
B. sets a price that will capture some of what customers will save by substituting the firm's product for the one currently being used.
C. merely sets the price at what customers expect to pay.
D. sets a rather high price to suggest high quality or high status.
E. is determined by online auctions.

199. An automobile manufacturer charges a higher price for its "hybrid" car that runs on both electricity and gasoline than it charges for a car that runs on only gasoline. The manufacturer contends that the consumer will save money with the hybrid car in the long run because the money saved on gasoline will more than cover the price differential between the hybrid car and a regular car. This manufacturer is using:

A. Price leadership.
B. Price lining.
C. Value in use pricing.
D. Psychological pricing.
E. Reference pricing.

200. An equipment producer is introducing a new type of paint sprayer to sell to automobile body-repair shops. The sprayer saves labor time, gives as good a job with less expensive paint, and requires less work polishing. The seller should probably use:

A. leader pricing.
B. bait pricing.
C. complementary product pricing.
D. odd-even pricing.
E. value in use pricing.

201. Sellers sometimes take the auction approach and adapt it by using sequential price reductions over time. When or where is this approach most commonly used?

A. With products that have a short life.
B. When the product supply is unlimited.
C. With heavy equipment manufacturing machinery.
D. With products that have extremely low inventory costs.
E. When competition is absent.

202. Which of the following observations concerning a "reference price" is true?

A. Reference price is the company's cost to produce the product.
B. Reference price is set by regulators.
C. Demand may increase if a firm's price is lower than a customer's reference price.
D. All customers have the same reference prices for the same basic type of purchase.

203. Which of the following statements concerning "reference prices" is FALSE?

A. A reference price is the price consumers expect to pay for an item.
B. Retailers sometimes want consumers to use the manufacturer's list price as the reference price even though their actual retail selling price is lower.
C. Different customers may have different reference prices for the same type of purchase.
D. Leader pricing is normally used with products for which consumers do not have a specific reference price.
E. None of the above is false.

204. Leader pricing:

A. seeks a big profit on the leader items.
B. is usually used for a retailer's major product line--to give it a competitive advantage.
C. is different from bait pricing in that the marketing manager really expects to sell leader priced items.
D. assumes that some part of the demand curve is upward sloping to the right.
E. is banned in interstate commerce.

205. A retailer of men's suits who is advertising a popular brand of dress shirts at a reduced price to attract customers is using:

A. price lining.
B. leader pricing.
C. odd-even pricing.
D. bait pricing.
E. prestige pricing.

206. A CVS drugstore that is trying to attract customers by advertising a special bargain price on a popular brand of cold remedy during the cold season is using:

A. leader pricing.
B. bait pricing.
C. prestige pricing.
D. odd-even pricing.
E. price lining.

207. Walgreens Drugstores advertises that its Tylenol prices are "the lowest in town" in order to stimulate sales of other products along with Tylenol. This is an example of:

A. skimming.
B. value in use pricing.
C. bait pricing.
D. price lining.
E. leader pricing.

208. A retail store advertises an SLR digital camera for $350. Once bargain hunters come to the store, salespeople point out the disadvantages of the low-priced camera and try to convince them to trade up to a better, and more expensive, unit. This is an example of

A. price following.
B. bait pricing.
C. odd-even pricing.
D. low pricing.
E. everyday low pricing.

209. A computer store regularly advertises a very low price for a well-known brand of disks. When the customers come in, however, the salespeople point out the disadvantages of this particular brand and try to persuade them to buy other disks at much higher prices. This retailer is using:

A. bait pricing.
B. odd-even pricing.
C. psychological pricing.
D. leader pricing.
E. price lining.

210. A retailer who advertises a low price on an item--with no intent to sell that item--but only to attract customers to try to sell more expensive products is using:

A. full-line pricing.
B. leader pricing.
C. odd-even pricing.
D. psychological pricing.
E. bait pricing.

211. A tire retailer is advertising a very low price on a popular size tire. When a customer comes into the store, the clerk says the low-priced item is sold out, and tries to convince the customer to buy the top-of-the-line model--claiming the low priced model is not a very good buy even at the low price. This is an example of:

A. leader pricing.
B. full-line pricing.
C. value in use pricing.
D. price lining.
E. bait pricing.

212. Regarding pricing:

A. the use of prestige and psychological pricing shows that most retailers do not consider demand when setting prices.
B. bait pricing tries to attract customers on the high end of a demand curve.
C. the FTC considers bait pricing a deceptive act and has banned its use in interstate commerce.
D. leader-priced items are priced very low to get customers into the store--not to sell these items.
E. All of the above are true.

213. Some retailers feel that their potential customers find certain prices appealing, but between these prices the customers see prices as roughly the same--and thus price cuts within these ranges will not increase the quantity sold (i.e., the demand curve is vertical within these "same price" ranges). These retailers probably use _____ if they want to maximize profit.

A. average-cost pricing
B. bait pricing
C. leader pricing
D. prestige pricing
E. psychological pricing

214. Gabriella Sax believes that customers in her dress shop find certain prices very appealing. Between these price levels, all prices are seen as roughly the same--and price cuts in these ranges generally do not increase the quantity sold (i.e., the demand curve tends to drop vertically within these price ranges). Therefore, Sax prices her items as close as possible to the top of each such price range. This is:

A. bait pricing.
B. prestige pricing.
C. leader pricing.
D. psychological pricing.
E. odd-even pricing.

215. The manager of Hot Topics Fashion Shop has concluded that her customers find certain prices very appealing. Customers see prices above or below these levels as roughly equal--and price cuts in these ranges don't increase sales. This seems to call for

A. prestige pricing.
B. bait pricing.
C. leader pricing.
D. psychological pricing.
E. odd-even pricing.

216. Some retailers commonly use prices that end in certain numbers. They seem to assume that their customers see prices with these numbers as substantially lower. This is:

A. odd-even pricing.
B. demand-backward pricing.
C. leader pricing.
D. prestige pricing.
E. psychological pricing.

217. Which of the following prices is most likely to be seen if a firm is using odd-even pricing?

A. $9.00
B. $2.03
C. $6.60
D. $99.95
E. $100.00

218. Setting a few price levels for a product line and then marking all items at these price levels is:

A. leader pricing.
B. price lining.
C. product-bundle pricing.
D. penetration pricing.
E. odd-even pricing.

219. The practice of setting different price levels for different quality classes of merchandise--with no prices between the classes--is called:

A. full-line pricing.
B. prestige pricing.
C. price lining.
D. odd-even pricing.
E. psychological pricing.

220. _____ is setting a few price levels for a product line and then marking all items at these prices.

A. Price following
B. Bait pricing
C. Odd-even pricing
D. Price lining
E. Price leading

221. Price lining:

A. is quite similar to prestige pricing.
B. can simplify both buying and selling.
C. tends to reduce turnover rates.
D. results in larger inventories.
E. All of the above.

222. Alex's Knot Shop prices its ties at $5 intervals from $10 to $25 because most customers find these prices appealing and easier to compare. This is:

A. prestige pricing.
B. penetration pricing.
C. price lining.
D. odd-even pricing.
E. value in use pricing.

223. "Demand-backward" pricing:

A. starts with an acceptable final consumer price and works backward to what producers can charge.
B. ignores demand estimates.
C. is only sensible when the channel captain is a large retailer.
D. is an average-cost pricing approach.
E. All of the above.

224. Good Health Co. has set a suggested retail list price of $40 on its new vitamin tablets on the assumption that its target market will find the product attractive at this price. From this suggested retail list price, Good Health has subtracted its usual chain of markups for wholesalers and retailers to obtain its own selling price of $17. This is:

A. demand-backward pricing.
B. full-line pricing.
C. average-cost pricing.
D. odd-even pricing.
E. prestige pricing.

225. Setting relatively high prices to suggest high-quality or high-status is:

A. odd-even pricing.
B. price lining.
C. leader pricing.
D. psychological pricing.
E. prestige pricing.

226. The idea that people will pay extra for "quality" and status is the idea behind

A. price lining.
B. average cost approaches to pricing.
C. penetration skimming.
D. prestige pricing.
E. psychological pricing.

227. Some consumers maintain a "price-quality association," meaning that if a product has a high price, they assume the product must have high quality. This "price-quality association" is the basis for the use of:

A. Odd-even pricing.
B. Prestige pricing.
C. Leader pricing.
D. Reference pricing.
E. Price lining.

228. Which of the following pricing approaches should be used by a profit-oriented retailer if its demand curve is down-sloping to the right for awhile--but then actually bends back to the left at lower prices?

A. Psychological pricing
B. Prestige pricing
C. Average-cost pricing
D. Bait pricing
E. Penetration pricing

229. Regarding "full-line pricing," which of the following statements is TRUE?

A. A good marketing manager usually tries to price products in a line so that the prices will seem logically related and make sense to target customers.
B. The marketing manager should try to cover all costs on the whole product line.
C. Most customers seem to feel that prices in a product line should be somewhat related to cost.
D. Not all companies that make a line of products must use full-line pricing.
E. All of the above are true.

230. Which of the following statements is true?

A. Prestige pricing is used to target government buyers.
B. With full-line pricing, all products in the company's line must be targeted at the same market.
C. Demand-backward pricing is used to target industrial buyers.
D. Value pricing can only be used by mass-merchandisers.
E. None of the above is true.

231. When Nintendo sets a relatively low price on its game units to stimulate more demand for its game cartridges, it is using

A. complementary product pricing.
B. product-bundle pricing.
C. price lining.
D. bait pricing.
E. cost plus pricing.

232. _____ involves setting one price for a set of products.

A. Price lining
B. Odd-even pricing
C. Product bundle pricing
D. Bait pricing
E. Price leading

233. When Walgreens Drugstore advertises one price for the cost of a roll of film and the cost of processing it, it is using

A. complementary product pricing.
B. flexible pricing.
C. product-bundle pricing.
D. a one-price policy.
E. bait pricing.

234. When consumers decide to purchase a music CD from Amazon.com, the company's website often suggests that consumers purchase an additional CD by the same artist for a combined price that is lower than the two CDs would sell for separately. Amazon.com is using:

A. Product-bundle pricing.
B. Complementary product pricing.
C. Full-line pricing.
D. Bid pricing.
E. Demand-backward pricing.

235. Fly-Right Travel Agency arranges vacation packages to Disney World in Florida. The price includes airfare, a rental car, deluxe accommodations, and tickets to Disney World and other attractions. Fly-Right is using:

A. Product-bundle pricing.
B. Complementary product pricing.
C. Full-line pricing.
D. Bid pricing.
E. Demand-backward pricing.

236._____ means offering a specific price for each possible job rather than setting a price that applies for all customers.

A. Price lining
B. Odd-even pricing
C. Product bundle pricing
D. Bid pricing
E. Price leading

237. If a service firm sets a specific price for each possible job--rather than setting a price which applies for all potential customers--it is most likely using:

A. product-bundle pricing.
B. a one-price policy.
C. price lining.
D. average-cost pricing.
E. bid pricing.

238. A paving contractor wants to work on road construction contracts administered and paid for by the state government. The contractor submits a sealed proposal to the state department of transportation for each construction job. The proposal contains a description of how the contractor will fulfill the specifications for the job at a specified price. The contractor is engaging in:

A. Odd-even pricing.
B. Prestige pricing.
C. Leader pricing.
D. Bid pricing.
E. Price lining.

239. With regard to bid pricing, a marketing manager should be aware that:

A. the customer is always required to accept the lowest bid.
B. since it costs very little to submit a bid, most firms try to bid for as many jobs as possible.
C. the same overhead charges and profit rates usually apply to all bids.
D. a big problem is estimating all the costs--including the variable and fixed costs that apply to a particular job.
E. All of the above are true statements.

240. With regard to bid pricing, a marketing manager should be aware that:

A. the same overhead charges and profit rates usually apply to all bids.
B. bids are usually based on inspection.
C. a big problem is estimating all the costs--including the variable and fixed costs that apply to a particular job.
D. e-commerce is of little use in bid pricing.
E. all of the above are correct.

241. Regarding bid pricing:

A. the same overhead changes and profit rates should apply to all bids--to avoid legal problems.
B. most firms should try to bid for as many jobs as possible--to spread risk.
C. all business buyers are legally required to accept the lowest bid--if they ask for bids.
D. the big problem for sellers is estimating all the costs--including the variable and fixed costs--that apply to a particular job.
E. All of the above are true.

242. Which of the following observations is false?

A. Competition need be considered when adding in overhead and profit for a bid price.
B. Some sellers fake their records to make costs seem higher than they really are.
C. Negotiated price is a price set based on bargaining between the buyer and seller.
D. Negotiated pricing is rare in situations where the marketing mix is adjusted for each customer.
E. Negotiated pricing is a demand-oriented approach.

243. Which of the following statements concerning "negotiated price" is FALSE?

A. The negotiated price is set by bargaining between the buyer and the seller.
B. Negotiated pricing is not a demand-oriented approach.
C. Bargaining may involve the whole marketing mix, not just the price level.
D. Sellers must know their costs to negotiate effectively.
E. None of the above is false.

Use this information for questions that refer to the Sporting Products, Inc. (SPI) case.

Randy Todd, marketing manager for Sporting Products, Inc. (SPI), is thinking about how changes taking place among retailers in his channel might impact his strategy.

SPI sells the products it produces through wholesalers and retailers. For example, SPI sells basketballs to Wholesale Supply for $8.00. Wholesale Supply uses a 20 percent markup and most of its "sport shop" retailer customers, like Robinson's Sporting Goods, use a 33 percent markup to arrive at the price they charge final consumers. However, one fast growing retail chain, Sports Depot, only uses a 20 percent markup for basketballs, even though it pays Wholesale Supply the same price as other retailers. Furthermore, Sports Depot occasionally lowers the price of basketballs and sells them at cost--to draw customers into its stores and stimulate sales of its pricey basketball shoes.

Sports Depot is also using other pricing approaches that are different from the sports shops that usually handle SPI products. For example, Sports Depot prices all of its baseball gloves at $20, $40, or $60--with no prices in between. There are three big bins - one for each price point.

Todd is also curious about how Sports Depot's new strategy to increase sales of tennis balls will work out. The basic idea is to sell tennis balls in large quantities to nonprofit groups who resell the balls to raise money. For example, a service organization at a local college bought 2,000 tennis balls printed with the college logo. Sports Depot charged $.50 each for the tennis balls-plus a $500 one-time charge for the stamp to print the logo. The service group plans to resell the tennis balls for $2.50 each and contribute the profits to a shelter for the homeless.

Todd is not certain if Sports Depot ideas will affect SPI's plans. For example, SPI is considering adding tennis racquets to the lines it produces. This would require a $500,000 addition to its factory as well as the purchase of new equipment that costs $1,000,000. The variable cost to produce a tennis racquet would be $20, but Todd thinks that SPI could sell the racquet at a wholesale price of $40 each. That would allow most retailers to add their normal markup and make a profit. However, if Sports Depot sells the racquet at a lower than normal price other retailers might decide to carry it.

244. What is the final selling price Robinson's Sporting Goods charges for a SPI basketball?

A. $10.00
B. $15.00
C. $15.75
D. $20.80
E. None of the above.

245. What is the final selling price Sports Depot charges for a SPI basketball?

A. $10.00
B. $12.00
C. $12.50
D. $15.00
E. $18.00

246. By pricing below other retailers, Sports Depot apparently:

A. hopes to achieve status quo pricing objectives.
B. wants to set prices based on "value in use."
C. relies on a high margin percent.
D. sees this as an oligopoly market.
E. expects a high stockturn rate.

247. SPI pays its salespeople a commission on each product they sell. The commission is:

A. part of the total cost -- but not specifically a fixed or a variable cost.
B. part of the total fixed cost.
C. not included in figuring average cost.
D. a variable cost.
E. none of the above is true.

248. Which of the following would NOT be one of SPI's fixed costs in the production of basketballs?

A. rent on the building used to store inventory of balls.
B. rubber used to make the balls.
C. property taxes for the building used to make the balls.
D. depreciation on the equipment used to make the balls.
E. insurance on the building used to make the balls.

249. What is the service organization's average cost for the printed tennis balls it buys from Sports Depot?

A. $.50
B. $.75
C. $.95
D. $1.50
E. $2.00

250. How many of the printed tennis balls must the service organization sell to cover the $500 fixed printing charge?

A. 250
B. 400
C. 500
D. 1000
E. 2000

251. If SPI produces tennis racquets, how many racquets must it sell at $40 to break even?

A. 50,000
B. 60,000
C. 75,000
D. 100,000
E. none of the above answers is correct.

252. How could Randy Todd use break-even analysis with his tennis racquet decision?

A. To reveal the combination of quantity and price that gives the highest profit.
B. To set the most profitable price.
C. To estimate future sales.
D. To compare the breakeven quantity for different prices with the likely level of demand.
E. To determine Wholesale Supply's likely selling price.

253. If SPI uses average-cost pricing, a big problem will be:

A. it ignores the demand curve for its products.
B. fixed costs are too hard to estimate.
C. the effects of variable costs are ignored.
D. the desired profit cannot be included.

254. Randy Todd wants to use marginal analysis to price the new tennis racquets, but doesn't know the exact shape of the firm's demand curve. Under these circumstances marginal analysis:

A. is useless.
B. may be useful anyway because a profitable region usually surrounds the best price.
C. will suggest the same price as break-even analysis.
D. suggests that the only sensible approach is to use average-cost pricing.
E. none of the above is true.

255. When Sports Depot temporarily lowers the price of basketballs, it is using:

A. bait pricing.
B. leader pricing.
C. value-in-use pricing.
D. psychological pricing.
E. prestige pricing.

256. The pricing approach Sports Depot uses to price its baseball gloves is called:

A. odd-even pricing.
B. value-in-use pricing
C. prestige pricing.
D. bait pricing.
E. price lining.

ch17 Key

1. Cost-oriented approaches are the most common price setting approach.
(p. 438)

TRUE

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Easy
LearnObj: 1
Perreault - Chapter 17 #1
Question Type: Definition
Self-Test: No

2. A markup is the dollar amount added to the cost of products to get the selling price.
(p. 438)

TRUE

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 1
Perreault - Chapter 17 #2
Question Type: Definition
Self-Test: No

3. By definition, a markup of $1 on a cost of $2 translates to a markup of 40 percent.
(p. 439)

FALSE

AACSB: 8 Financial
Chapter: 17
Difficulty: Hard
LearnObj: 1
Perreault - Chapter 17 #3
Question Type: Definition
Self-Test: No

4. According to the text, markup (percent) means percentage of cost unless otherwise stated.
(p. 439)

FALSE

AACSB: 3 Analytical skills; 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 1
Perreault - Chapter 17 #4
Question Type: Definition
Self-Test: No

5. If a retailer adds a 25-cent markup to a product which costs the retailer $1.00, then according to the text the retailer's markup is 20 percent.
(p. 439)

TRUE

AACSB: 3 Analytical skills; 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 1
Perreault - Chapter 17 #5
Question Type: Definition
Self-Test: No

6. If a retailer adds a 25-cent markup to a product which costs the retailer $1.00, then according to the text the retailer's markup is 25 percent.
(p. 439)

FALSE

AACSB: 3 Analytical skills; 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 1
Perreault - Chapter 17 #6
Question Type: Definition
Self-Test: No

7. Most retailers and wholesalers set prices by using a different markup percent for each different product carried.
(p. 440)

FALSE

AACSB: 3 Analytical skills; 9 Value creation
Chapter: 17
Difficulty: Easy
LearnObj: 1
Perreault - Chapter 17 #7
Question Type: Definition
Self-Test: No

8. A "markup chain" can be used to calculate the price structure in a whole channel.
(p. 440)

TRUE

AACSB: 9 Value creation
Chapter: 17
Difficulty: Easy
LearnObj: 1
Perreault - Chapter 17 #8
Question Type: Definition
Self-Test: No

9. A certain item has a production cost of $24. The manufacturer takes a 25 percent markup, the wholesaler takes a 20 percent markup, and the retailer takes a 50 percent markup. Therefore, the item has a retail selling price of $80.
(p. 440)

TRUE

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 1
Perreault - Chapter 17 #9
Question Type: Definition
Self-Test: No

10. High markups always mean big profits.
(p. 440)

FALSE

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Medium
LearnObj: 1
Perreault - Chapter 17 #10
Question Type: Definition
Self-Test: No

11. Retailers who earn high profits generally use higher markups than retailers who have low profits.
(p. 441)

FALSE

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Easy
LearnObj: 1
Perreault - Chapter 17 #11
Question Type: Definition
Self-Test: No

12. Items with lower markups may be more profitable--if the stockturn is higher.
(p. 441)

TRUE

AACSB: 9 Value creation
Chapter: 17
Difficulty: Easy
LearnObj: 2
Perreault - Chapter 17 #12
Question Type: Definition
Self-Test: No

13. Firms with high markups and low turnover rates may earn lower profits than firms with low markups and high turnover rates.
(p. 441)

TRUE

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Easy
LearnObj: 2
Perreault - Chapter 17 #13
Question Type: Definition
Self-Test: No

14. The stockturn rate is the number of times the average inventory must turnover to make a profit in a given year.
(p. 441)

FALSE

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 2
Perreault - Chapter 17 #14
Question Type: Definition
Self-Test: No

15. A low stockturn decreases inventory carrying cost and frees up working capital.
(p. 441)

FALSE

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Medium
LearnObj: 2
Perreault - Chapter 17 #15
Question Type: Definition
Self-Test: No

16. A supermarket is bound to expect a higher stockturn for fresh fruits and vegetables compared to soaps and detergents.
(p. 441)

TRUE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 2
Perreault - Chapter 17 #16
Question Type: Definition
Self-Test: No

17. Average-cost pricing consists of adding a 20 percent markup to the average cost of an item.
(p. 442)

FALSE

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #17
Question Type: Definition
Self-Test: No

18. Average-cost pricing means adding a reasonable markup to the total cost of a product.
(p. 442)

FALSE

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #18
Question Type: Definition
Self-Test: No

19. Average-cost pricing guarantees that the firm will earn enough to at least cover its costs.
(p. 442)

FALSE

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #19
Question Type: Definition
Self-Test: No

20. A major problem with average-cost pricing is that it does not allow for cost variations at different levels of output.
(p. 442)

TRUE

AACSB: 10 Org Dynamics
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #20
Question Type: Definition
Self-Test: No

21. A major advantage of average-cost pricing is that it assumes costs remain constant at different levels of output.
(p. 443)

FALSE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #21
Question Type: Definition
Self-Test: No

22. Total fixed costs do not change when output increases.
(p. 443)

TRUE

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #22
Question Type: Definition
Self-Test: No

23. At zero output, total variable cost is zero.
(p. 443)

TRUE

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #23
Question Type: Definition
Self-Test: No

24. A firm's total cost increases only when its variable cost increases.
(p. 443)

TRUE

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #24
Question Type: Definition
Self-Test: No

25. Changes in total cost depend on variations in total variable cost, since total fixed cost stays the same.
(p. 443)

TRUE

AACSB: 8 Financial
Chapter: 17
Difficulty: Medium
LearnObj: 3
Perreault - Chapter 17 #25
Question Type: Definition
Self-Test: No

26. Average fixed cost goes down as output decreases.
(p. 444)

FALSE

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #26
Question Type: Definition
Self-Test: No

27. If a firm's average variable cost is constant per unit, then the firm's average cost decreases continually as output increases because average fixed cost decreases continually.
(p. 444-445)

TRUE

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #27
Question Type: Definition
Self-Test: No

28. A firm's average fixed cost increases as its output increases.
(p. 444)

FALSE

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #28
Question Type: Definition
Self-Test: No

29. Average fixed costs are lower when a large quantity is produced.
(p. 444)

TRUE

AACSB: 9 Value creation
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #29
Question Type: Definition
Self-Test: No

30. As output increases, a firm's average fixed cost probably will go down.
(p. 444)

TRUE

AACSB: 9 Value creation
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #30
Question Type: Definition
Self-Test: No

31. *(p. 444-445)* Even if a firm's average variable cost remains constant per unit, its average cost will increase as output increases.

FALSE

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #31
Question Type: Definition
Self-Test: No

32. *(p. 445)* Ignoring demand is the major weakness of average-cost pricing

TRUE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #32
Question Type: Definition
Self-Test: No

33. *(p. 445)* If a manager sells more than was expected when average-cost pricing was used to set a price, the firm will lose money.

FALSE

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #33
Question Type: Definition
Self-Test: No

34. *(p. 445)* Average-cost pricing works well if the firm actually sells the quantity which was used in setting the price, but losses may result if actual sales are much higher than were expected--due to higher total variable costs.

FALSE

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #34
Question Type: Definition
Self-Test: No

35. *(p. 445)* When setting prices, the marketing manager should consider the firm's demand curve, or else the price may not even cover the firm's total cost.

TRUE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #35
Question Type: Definition
Self-Test: No

36. Average-cost pricing works best in situations where demand conditions do not change a lot.
(p. 445)

TRUE

AACSB: 13 Economic environments
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #36
Question Type: Definition
Self-Test: No

37. An advantage of average-cost pricing is that it considers competitors' costs and prices.
(p. 446)

FALSE

AACSB: 8 Financial
Chapter: 17
Difficulty: Medium
LearnObj: 3
Perreault - Chapter 17 #37
Question Type: Definition
Self-Test: No

38. Break-even analysis evaluates whether the firm will be able to cover all its costs with a particular price.
(p. 446)

TRUE

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 4
Perreault - Chapter 17 #38
Question Type: Definition
Self-Test: No

39. The break-even point is the intersection of the total cost curve and the total profit curve.
(p. 446)

FALSE

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 4
Perreault - Chapter 17 #39
Question Type: Definition
Self-Test: No

40. If the price per unit is $1.00 and the average variable cost per unit is 60 cents, the fixed cost contribution per unit is $1.40.
(p. 447)

FALSE

AACSB: 6. Reflective thinking
Chapter: 17
Difficulty: Hard
LearnObj: 4
Perreault - Chapter 17 #40
Question Type: Mathematical
Self-Test: No

41. Each possible price has its own break-even point
(p. 447)

TRUE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 4
Perreault - Chapter 17 #41
Question Type: Definition
Self-Test: No

42. If a company raises its price per unit, but keeps total fixed cost and variable cost per unit the same, the break-even point will be lower.
(p. 447)

TRUE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 4
Perreault - Chapter 17 #42
Question Type: Definition
Self-Test: No

43. Break-even analysis is particularly accurate because it recognizes that the demand curve is downward sloping.
(p. 448)

FALSE

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 4
Perreault - Chapter 17 #43
Question Type: Definition
Self-Test: No

44. Marginal analysis focuses on the changes in average fixed cost per unit and average variable cost from selling one more unit to find the most profitable price and quantity.
(p. 448)

FALSE

AACSB: 11 Analysis for decisions; 8 Financial
Chapter: 17
Difficulty: Medium
LearnObj: 5
Perreault - Chapter 17 #44
Question Type: Definition
Self-Test: No

45. There is only one price that will be profitable for firms with down-sloping demand curves.
(p. 449-450)

FALSE

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Easy
LearnObj: 5
Perreault - Chapter 17 #45
Question Type: Definition
Self-Test: No

46. *(p. 449-450)* Even if a manager's estimate of a demand curve is not exact, there is usually a profitable range around the price that would maximize profit.

TRUE

AACSB: 9 Value creation
Chapter: 17
Difficulty: Easy
LearnObj: 5
Perreault - Chapter 17 #46
Question Type: Definition
Self-Test: No

47. *(p. 450)* Marketing managers wish they knew more about price sensitivity, but so far marketing research has been little help in identifying factors that influence customers.

FALSE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 6
Perreault - Chapter 17 #47
Question Type: Definition
Self-Test: No

48. *(p. 450)* When customers have substitute ways of meeting a need, they are likely to be more price sensitive.

TRUE

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Easy
LearnObj: 6
Perreault - Chapter 17 #48
Question Type: Definition
Self-Test: No

49. *(p. 450)* When customers have to pay the bill themselves, they are likely to be more price sensitive.

TRUE

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Easy
LearnObj: 6
Perreault - Chapter 17 #49
Question Type: Definition
Self-Test: No

50. *(p. 450)* The greater the total expenditure, the less price sensitive customers are.

FALSE

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Easy
LearnObj: 6
Perreault - Chapter 17 #50
Question Type: Definition
Self-Test: No

51. When the end benefit of a purchase is significant to the customer, he is likely to be less price sensitive.
(p. 450)

TRUE

AACSB: 9 Value creation
Chapter: 17
Difficulty: Easy
LearnObj: 6
Perreault - Chapter 17 #51
Question Type: Definition
Self-Test: No

52. Business customers are sometimes less price sensitive if there are switching costs.
(p. 451)

TRUE

AACSB: 9 Value creation
Chapter: 17
Difficulty: Easy
LearnObj: 6
Perreault - Chapter 17 #52
Question Type: Definition
Self-Test: No

53. Value in use pricing considers what a customer will save by buying a product.
(p. 452)

TRUE

AACSB: 9 Value creation
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #53
Question Type: Definition
Self-Test: No

54. Auctions have not proved very effective in determining how much potential customers will (or will not) pay for a product.
(p. 453)

FALSE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #54
Question Type: Definition
Self-Test: No

55. Online auctions (on the Internet) are becoming very popular as a way to determine how much customers are willing to pay for a product.
(p. 453)

TRUE

AACSB: 12 IT influences
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #55
Question Type: Definition
Self-Test: No

56. A firm using sequential price reductions starts with a high price but plans to reduce that price step-by-step until its product is sold out.
(p. 453)

TRUE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #56
Question Type: Definition
Self-Test: No

57. Sequential price reductions and clearance sales are the same thing.
(p. 453)

FALSE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #57
Question Type: Definition
Self-Test: No

58. All customers have the same reference price for the same basic type of purchase.
(p. 453)

FALSE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 7
Perreault - Chapter 17 #58
Question Type: Definition
Self-Test: No

59. The price most consumers expect to pay for a product is called the leader price.
(p. 453)

FALSE

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #59
Question Type: Definition
Self-Test: No

60. The sole objective of leader pricing is to sell large quantities of the leader items.
(p. 454)

FALSE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 7
Perreault - Chapter 17 #60
Question Type: Definition
Self-Test: No

61. Leader pricing is typically used with well-known, widely used items which are not stocked heavily by consumers.
(p. 454)

TRUE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #61
Question Type: Definition
Self-Test: No

62. It makes sense for a manager to use leader pricing on a product only if consumers are unlikely to be aware of the normal price.
(p. 455)

FALSE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #62
Question Type: Definition
Self-Test: No

63. Leader pricing is normally used with products for which consumers do have a specific reference price.
(p. 455)

TRUE

AACSB: 9 Value creation
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #63
Question Type: Definition
Self-Test: No

64. A major difference between leader pricing and bait pricing is that bait pricing is criticized as unethical while leader pricing is not.
(p. 455)

TRUE

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #64
Question Type: Definition
Self-Test: No

65. The Federal Trade Commission encourages bait pricing because it reduces the prices that consumers pay for products.
(p. 455)

FALSE

AACSB: 2 Ethical reasoning
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #65
Question Type: Definition
Self-Test: No

66. "Psychological pricing" involves setting prices which end in certain numbers, while "odd-even pricing" is setting prices which have special appeal to target customers.
(p. 455)

FALSE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #66
Question Type: Definition
Self-Test: No

67. If Radio Shack offers several models of clock radios at each $5 increment between $19.95 and $49.95, it is probably practicing odd-even pricing.
(p. 455)

FALSE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #67
Question Type: Comprehension
Self-Test: No

68. The major disadvantage of price lining is that it is complicated for both clerks and customers.
(p. 455)

FALSE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #68
Question Type: Definition
Self-Test: No

69. Price lining tends to result in faster turnover, fewer markdowns, quicker sales, and simplified buying.
(p. 456)

TRUE

AACSB: 9 Value creation
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #69
Question Type: Definition
Self-Test: No

70. Demand-backward pricing is commonly used by producers of consumer products, especially shopping products such as women's clothing and appliances.
(p. 456)

TRUE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Hard
LearnObj: 7
Perreault - Chapter 17 #70
Question Type: Definition
Self-Test: No

71. "Demand-backward pricing" involves a producer estimating an acceptable final consumer price and working backward to determine what the producer can charge in the channel.
(p. 456)

TRUE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #71
Question Type: Definition
Self-Test: No

72. Demand estimates are required for demand-backward pricing to be successful.
(p. 456)

TRUE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #72
Question Type: Definition
Self-Test: No

73. Prestige pricing is most common for luxury products such as furs, jewelry, and perfume.
(p. 456)

TRUE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #73
Question Type: Definition
Self-Test: No

74. Prestige pricing involves setting a rather high price because the product has a normal down-sloping demand curve.
(p. 456)

FALSE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #74
Question Type: Definition
Self-Test: No

75. "Full-line pricing" is setting prices for a whole line of products.
(p. 457)

TRUE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #75
Question Type: Definition
Self-Test: No

76. With complementary product pricing, different price levels are set on different products because the products are targeted at different market segments.
(p. 458)

FALSE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #76
Question Type: Definition
Self-Test: No

77. Product-bundle pricing may encourage customers to spend more and buy products that they would not buy otherwise.
(p. 458)

TRUE

AACSB: 9 Value creation
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #77
Question Type: Definition
Self-Test: No

78. Bid pricing is offering a specific price for each possible job, rather than setting a price that applies to all potential customers.
(p. 458)

TRUE

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 8
Perreault - Chapter 17 #78
Question Type: Definition
Self-Test: No

79. With bid pricing, it is best for the bidder to use the same overhead and profit rates on all jobs since that will make it easy to estimate costs and eventually will increase profits.
(p. 459)

FALSE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 8
Perreault - Chapter 17 #79
Question Type: Definition
Self-Test: No

80. Competition needs to be considered when adding in overhead and profit for a bid price.
(p. 459)

TRUE

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 8
Perreault - Chapter 17 #80
Question Type: Definition
Self-Test: No

81. According to the text, the two basic approaches to price setting are
(p. 438)

A. supply-oriented and demand-oriented price setting.
B. cost-oriented and demand-oriented price setting.
C. sales-oriented and profit-oriented price setting.
D. cost-oriented and profit-oriented price setting.
E. Average-cost pricing and break-even analysis.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 1
Perreault - Chapter 17 #81
Question Type: Definition
Self-Test: No

82. Most firms in the business world set their prices using:
(p. 438)

A. federal price guidelines.
B. demand-oriented price setting.
C. cost-oriented price setting.
D. supply and demand analysis.
E. marginal analysis.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 1
Perreault - Chapter 17 #82
Question Type: Definition
Self-Test: No

83. A _____ is a dollar amount added to the cost of products to get the selling price.
(p. 438)

A. markup
B. rebate
C. list price
D. spiff
E. deal

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 1
Perreault - Chapter 17 #83
Question Type: Definition
Self-Test: No

84. All of the following observations concerning markups are true except
(p. 439)

A. they guide pricing by intermediaries.
B. they are used by most retailers and wholesalers to set prices.
C. they are a cost-oriented price setting approach.
D. they are usually stated as dollar amounts.
E. they are related to selling price for convenience.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 1
Perreault - Chapter 17 #84
Question Type: Definition
Self-Test: No

85. The text says "markup" means percent of:
(p. 439)

A. "mark-on."
B. selling price--unless otherwise stated.
C. fixed cost.
D. delivered cost--unless otherwise stated.
E. cost of sales.

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 1
Perreault - Chapter 17 #85
Question Type: Definition
Self-Test: No

86. The text says "markups":
(p. 439)

A. should always be stated as a percentage of cost.
B. are a percentage of selling price--unless otherwise stated.
C. are never stated as a percentage of cost.
D. should never be stated in dollar amounts.
E. All of the above except B.

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 1
Perreault - Chapter 17 #86
Question Type: Self-Test
Self-Test: Self-Test

87. The typical markup (percent) is the:
(p. 439)

A. cost of an item divided by its selling price--times 100.
B. selling price minus the cost of the item, divided by the cost of the item--times 100.
C. selling price of an item, divided by its cost--times 100.
D. selling price minus the cost of the item, divided by the selling price--times 100.
E. selling price minus the cost of the item, divided by the average fixed cost--times 100.

AACSB: 8 Financial
Chapter: 17
Difficulty: Medium
LearnObj: 1
Perreault - Chapter 17 #87
Question Type: Comprehension
Self-Test: No

88. A retailer buys a particular product for $4. To make a profit, the retailer adds $2 to cover operating expenses and provide a profit. The percentage markup on the $6 selling price is
(p. 439)

A. 50 percent.
B. 33.33 percent.
C. 100 percent.
D. 20 percent.
E. 25 percent.

AACSB: 8 Financial
Chapter: 17
Difficulty: Hard
LearnObj: 1
Perreault - Chapter 17 #88
Question Type: Mathematical
Self-Test: No

89. A retailer pays a wholesaler $24.00 for an item and then sells it with a 25 percent markup. The retailer's selling price is:
(p. 439)

A. $32.00.
B. $56.00.
C. $48.00.
D. $30.00.
E. None of the above.

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Easy
LearnObj: 1
Perreault - Chapter 17 #89
Question Type: Self-Test
Self-Test: Self-Test

90. An item costs a retailer $140. If a 30 percent markup is desired, what should the retail selling price be?
(p. 439)

A. $191.00
B. $242.00
C. $182.00
D. $140.30
E. $200.00

AACSB: 6. Reflective thinking
Chapter: 17
Difficulty: Medium
LearnObj: 1
Perreault - Chapter 17 #90
Question Type: Mathematical
Self-Test: No

91. The Horizons Cycle Shop bought 3 motorcycles for $2,100, and sold each one for $1,000. The markup percent was:
(p. 439)

A. 33 1/3.
B. 30.
C. 142.
D. 50.
E. There is not enough information to tell.

AACSB: 6. Reflective thinking
Chapter: 17
Difficulty: Medium
LearnObj: 1
Perreault - Chapter 17 #91
Question Type: Application
Self-Test: No

92. *(p. 439)* Michael Soles--owner of Soles Shoe Store--recently discovered that shoe stores in his trading area have an average markup of 40 percent. Upon investigation, Michael found that his average markup is $15 on shoes that he sells for $45. This suggests that:

A. Michael has higher-than-average costs.
B. Michael is pricing his products higher than his competitors.
C. Michael is taking a smaller average markup than his competitors.
D. Michael has a relatively high stockturn rate.
E. Michael's markups in dollar amounts are about the same as his competitors.

AACSB: 6. Reflective thinking
Chapter: 17
Difficulty: Hard
LearnObj: 1
Perreault - Chapter 17 #92
Question Type: Application
Self-Test: No

93. *(p. 440)* Different firms in the same line of business are likely to use the same markup percent:

A. because they all want to have the same selling price.
B. because this is a government requirement.
C. because they are likely to have similar operating expenses.
D. because this is what is acceptable to manufacturers.
E. only if they are in pure competition.

AACSB: 10 Org Dynamics
Chapter: 17
Difficulty: Easy
LearnObj: 1
Perreault - Chapter 17 #93
Question Type: Comprehension
Self-Test: No

94. *(p. 440)* A standard markup is often set close to the firm's

A. gross margin.
B. net profits.
C. overheads.
D. operating costs.
E. competitors' costs.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 1
Perreault - Chapter 17 #94
Question Type: Definition
Self-Test: No

95. Gross margin is expressed as
(p. 440)

A. gross sales minus accounts receivable.
B. net sales minus contribution margin.
C. net margin minus sales and operating expenses.
D. net sales minus administrative expenses.
E. net sales minus cost of goods sold.

AACSB: 8 Financial
Chapter: 17
Difficulty: Medium
LearnObj: 1
Perreault - Chapter 17 #95
Question Type: Definition
Self-Test: No

96. The markup approach to price setting used by most intermediaries:
(p. 440)

A. makes little sense--given the large number of items carried and the small sales volume of any one item.
B. is very inflexible because the same markup percent must be applied to all products.
C. often uses the trade (functional) discount allowed by the manufacturer.
D. is quite complicated--because each product has a different delivered cost.
E. All of the above.

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 1
Perreault - Chapter 17 #96
Question Type: LearnAid
Self-Test: Self-Test & Learn Aid

97. The sequence of markups firms use at different levels in a channel is referred to as a(n)
(p. 440)

A. market sequence.
B. markup chain.
C. markup margin.
D. standard markup.
E. markup channel.

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Easy
LearnObj: 1
Perreault - Chapter 17 #97
Question Type: Definition
Self-Test: No

98. A markup chain:
(p. 440)

A. only applies to consumer products, not to business products.
B. implies that a retailer must always apply a smaller markup than a wholesaler.
C. causes lower prices in longer channel systems.
D. determines the price structure in a channel of distribution.
E. None of the above is true.

AACSB: 9 Value creation
Chapter: 17
Difficulty: Medium
LearnObj: 1
Perreault - Chapter 17 #98
Question Type: Comprehension
Self-Test: No

99. *(p. 440)* The production cost of an automobile component is $45. The producer takes a 10 percent markup and sells the product to the wholesaler. What is the wholesaler's cost?

A. $45
B. $5
C. $10
D. $50
E. $60

AACSB: 8 Financial
Chapter: 17
Difficulty: Hard
LearnObj: 1
Perreault - Chapter 17 #99
Question Type: Mathematical
Self-Test: No

100. *(p. 440)* Blue Ridge Weavers wants to set its selling price on an item so that the retail list price will be $50--taking into account the usual markups of 10 percent at wholesale and 30 percent at retail. At what price should Blue Ridge Weavers sell the item?

A. $32.50
B. $31.50
C. $35.00
D. $34.00
E. $38.00

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Hard
LearnObj: 1
Perreault - Chapter 17 #100
Question Type: Mathematical
Self-Test: No

101. *(p. 440)* High Meadow Mfg. Co. sold its product through wholesalers and retailers--allowing the wholesalers a markup of 25 percent and retailers a markup of 40 percent. If the retail selling price is $100 and the manufacturer's cost is $30, what markup in dollars did High Meadow receive on the sale of this product?

A. $5.00
B. $13.50
C. $15.00
D. $10.00
E. $20.00

AACSB: 8 Financial
Chapter: 17
Difficulty: Hard
LearnObj: 1
Perreault - Chapter 17 #101
Question Type: Mathematical
Self-Test: No

102. TopKnotch Mfg. Co. has a production cost of $280. It sells its product to a wholesaler for $400. The wholesaler then sells the item to retailers for $500 and the retailers sell the item for $1,000. Which of the following is true about this "markup chain?"
(p. 440)

A. The wholesaler's markup is 25 percent.
B. The manufacturer is taking a markup of 30 percent.
C. The retailers' markup is 100 percent.
D. All of the above are true.
E. None of the above is true.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Hard
LearnObj: 1
Perreault - Chapter 17 #102
Question Type: Mathematical
Self-Test: No

103. Wilson sells a basketball to a wholesaler for $16, and the wholesaler applies a 20 percent markup. A retailer then applies a 33.3 percent markup. The final selling price is:
(p. 440)

A. $24.53.
B. $30.00.
C. $25.59.
D. $28.00.
E. Cannot be determined from the information given.

AACSB: 8 Financial
Chapter: 17
Difficulty: Hard
LearnObj: 1
Perreault - Chapter 17 #103
Question Type: Application
Self-Test: No

104. A producer makes an item for $32 and sells it with a 50 percent markup to a wholesaler. The wholesaler then applies a 20 percent markup. A retailer then uses a 60 percent markup. The final retail selling price is:
(p. 440)

A. $200.00.
B. $73.60.
C. $64.00.
D. $80.00.
E. Cannot be determined without stockturn information.

AACSB: 8 Financial
Chapter: 17
Difficulty: Hard
LearnObj: 1
Perreault - Chapter 17 #104
Question Type: Application
Self-Test: No

105. It costs a producer $400 to manufacture a product that is distributed through wholesalers and retailers. The markups at the producer, wholesaler, and retailer levels are 20%, 20% and 50%, respectively. The wholesaler's selling price for the product is _____, and the retailer's selling price is: _____.
(p. 440)

A. $625; $1250
B. $576; $864
C. $480; $576
D. $500; $625
E. Cannot be determined from the information provided

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 1
Perreault - Chapter 17 #105
Question Type: Mathematical
Self-Test: No

106. Which of the following is a TRUE statement about markups?
(p. 440)

A. A firm can lose money even when using a high markup.
B. Markup percents are computed as a percent of the cost of the product.
C. It's easier for a producer to administer the prices consumers pay for products if the markup used varies from one intermediary to the next.
D. The lower the markup, the lower the profit.
E. None of the above is true.

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Easy
LearnObj: 1
Perreault - Chapter 17 #106
Question Type: Self-Test
Self-Test: Self-Test

107. An intermediary seeking high profits should:
(p. 441)

A. use the lowest markup that will still cover selling expenses.
B. use price lining.
C. use high markups.
D. choose the markup which maximizes turnover.
E. try to find the markup level related to the most profitable price.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 1
Perreault - Chapter 17 #107
Question Type: Application
Self-Test: No

108. High markups on a product could lead to low profits when
(p. 441)

A. competitors have higher markups.
B. there are no substitutes.
C. demand is inelastic.
D. sales dip due to high prices.
E. supply is inelastic.

AACSB: 6. Reflective thinking
Chapter: 17
Difficulty: Medium
LearnObj: 1
Perreault - Chapter 17 #108
Question Type: Comprehension
Self-Test: No

109. The stockturn rate is
(p. 441)

A. the firm's ability to meet its short-term financial obligations.
B. the number of days that credit sales remains in receivables.
C. the number of times the average inventory is sold in a year.
D. the difference between net sales and cost of goods sold.
E. the ratio of sales to inventory.

AACSB: 8 Financial
Chapter: 17
Difficulty: Medium
LearnObj: 2
Perreault - Chapter 17 #109
Question Type: Definition
Self-Test: No

110. "Stockturn rate" means:
(p. 441)

A. the number of days required to sell a given output of products.
B. the amount of time needed to sell every item in a retailer's inventory.
C. the number of times the average inventory is sold in a year.
D. the rate at which products enter and leave an intermediary's establishment.
E. All of the above.

AACSB: 10 Org Dynamics
Chapter: 17
Difficulty: Medium
LearnObj: 2
Perreault - Chapter 17 #110
Question Type: Definition
Self-Test: No

111. The number of times an intermediary's average inventory is sold in a year is called the:
(p. 441)

A. stockturn rate.
B. asset factor.
C. inventory ratio.
D. markup ratio.
E. ROI (return on inventory).

AACSB: 10 Org Dynamics
Chapter: 17
Difficulty: Easy
LearnObj: 2
Perreault - Chapter 17 #111
Question Type: Definition
Self-Test: No

112. A low stockturn rate
(p. 441)

A. is extremely good for profits.
B. decreases inventory carrying cost.
C. ties up working capital.
D. is usually linked with very low markups.
E. is typical of fresh fruits and vegetables.

AACSB: 6. Reflective thinking
Chapter: 17
Difficulty: Hard
LearnObj: 2
Perreault - Chapter 17 #112
Question Type: Comprehension
Self-Test: No

113. A high stockturn rate:
(p. 441)

A. is only possible with a low markup percent.
B. is likely to result in low profits.
C. reduces the inventory investment and can improve profits.
D. increases the space needed for inventory.
E. None of the above is true.

AACSB: 9 Value creation
Chapter: 17
Difficulty: Medium
LearnObj: 2
Perreault - Chapter 17 #113
Question Type: Comprehension
Self-Test: No

114. Retailers of which of the following products would probably have the highest stockturn rate?
(p. 441)

A. furniture
B. women's clothing
C. hardware
D. fresh seafood
E. bowling balls

AACSB: 10 Org Dynamics
Chapter: 17
Difficulty: Easy
LearnObj: 2
Perreault - Chapter 17 #114
Question Type: Application
Self-Test: No

115. Best Buy sets its prices below other electronics stores in its service area and generally attracts more customers than the others. Best Buy apparently hopes to earn a profit by
(p. 441)

A. achieving status quo pricing objectives.
B. setting prices based on "value in use."
C. relying on a high margin percent.
D. being the price leader in an oligopoly market.
E. achieving a high stockturn rate.

AACSB: 9 Value creation
Chapter: 17
Difficulty: Medium
LearnObj: 2
Perreault - Chapter 17 #115
Question Type: Application
Self-Test: No

116. Regarding markups and turnover:
(p. 441)

A. high markups usually lead to high profits.
B. speeding turnover usually decreases profits.
C. items sold at low markups (e.g., 20 percent) cannot be profitable.
D. depending on the industry--a stockturn rate of 1 or 2 may be quite profitable.
E. All of the above.

AACSB: 9 Value creation
Chapter: 17
Difficulty: Hard
LearnObj: 2
Perreault - Chapter 17 #116
Question Type: Integrating
Self-Test: No

117. With respect to markups and turnover, a marketing manager should be aware that:
(p. 440-441)

A. a low stockturn rate increases inventory carrying costs.
B. depending on the industry, a stockturn rate of 2 or 3 may be quite profitable.
C. high markups don't always mean big profits.
D. speeding turnover often increases profits because the firm's operating costs are a function of time and the volume of goods sold.
E. All of the above are true statements.

AACSB: 10 Org Dynamics
Chapter: 17
Difficulty: Easy
LearnObj: 2
Perreault - Chapter 17 #117
Question Type: LearnAid
Self-Test: Self-Test & Learn Aid

118. Regarding markups and turnover:
(p. 440-441)

A. supermarket operators have found that high-margin products are generally more profitable that low-margin products.
B. higher markups do not always lead to higher profits.
C. low stockturn rates increase costs by tying up working capital in inventory.
D. to earn higher profits, all firms should lower their markups and seek faster turnover.
E. Both B and C.

AACSB: 10 Org Dynamics
Chapter: 17
Difficulty: Medium
LearnObj: 2
Perreault - Chapter 17 #118
Question Type: Integrating
Self-Test: No

119. A firm with a stockturn rate of 4 sells products that cost it $100,000. This requires _____ worth of inventory.
(p. 441)

A. $25,000
B. $20,000
C. $80,000
D. $400,000
E. $50,0000

AACSB: 8 Financial
Chapter: 17
Difficulty: Hard
LearnObj: 2
Perreault - Chapter 17 #119
Question Type: Mathematical
Self-Test: No

120. A firm with a stockturn rate of 5 sells products that cost it $100,000. Its annual inventory carrying cost is about 20 percent of the inventory value. What is its annual inventory carrying cost?
(p. 441)

A. $5,000
B. $4,000
C. $8,000
D. $20,000
E. $100,000

AACSB: 8 Financial
Chapter: 17
Difficulty: Hard
LearnObj: 2
Perreault - Chapter 17 #120
Question Type: Mathematical
Self-Test: No

121. If a retailer's annual stockturn rate shifted to 20 from 5, then selling products costing $100,000 would require _____ rather than $20,000 in working capital to carry the needed inventory.
(p. 441)

A. $10,000
B. $80,000
C. $8,000
D. $500
E. $5,000

AACSB: 9 Value creation
Chapter: 17
Difficulty: Medium
LearnObj: 2
Perreault - Chapter 17 #121
Question Type: Mathematical
Self-Test: No

122. A regional manager for a chain of auto parts stores visits one of the stores in the chain. He looks in the store's warehouse and finds about 100 cases of motor oil that have been sitting in the warehouse for over one year. Upon inspection, he finds that in each case, one of the twelve cans of oil has leaked, thus soaking through the box and making the case unfit for sale. The regional manager instructs the store manager to unpack all of the cases, discard the leaking cans, clean up the remaining cans, and to contact the oil company for new boxes. He tells the store manager to repackage the remaining cans in the new boxes and to sell the cases to customers at the retailer's cost with no added markup. He explains to the store manager that moving this inventory will not result in immediate profit, but that it will benefit the store by improving the:
(p. 441)

A. Markup.
B. Markup rate.
C. Markup percent.
D. Stockturn rate.
E. Break-even point.

AACSB: 9 Value creation
Chapter: 17
Difficulty: Easy
LearnObj: 2
Perreault - Chapter 17 #122
Question Type: Comprehension
Self-Test: No

123. Setting prices by adding a "reasonable" markup to a firm's average cost is called:
(p. 442)

A. break-even pricing.
B. add-on pricing.
C. target-return pricing.
D. average-cost pricing.
E. marginal analysis.

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #123
Question Type: Definition
Self-Test: No

124. Average-cost pricing:
(p. 442)

A. consists of adding a "reasonable" markup to the average cost of a product.
B. puts a great deal of emphasis on determining how sensitive consumer demand is at different price levels.
C. does not consider cost variations at different levels of output.
D. focuses on the differences between fixed and variable costs.
E. Both A and C are true.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #124
Question Type: LearnAid
Self-Test: Self-Test & Learn Aid

125. A disadvantage of average-cost pricing is that it
(p. 442)

A. does not consider historical values.
B. is a highly complicated method of pricing.
C. is rarely a useful input to pricing decisions.
D. is easy to lose money with average-cost pricing.
E. does not help understand how costs operate at different levels of output.

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Medium
LearnObj: 3
Perreault - Chapter 17 #125
Question Type: Definition
Self-Test: No

126. Mark is trying to determine his firm's average cost per unit of production. He finds that the cost for all labor and materials is $80,000 and fixed overhead expenses are $40,000. If the company produces 20,000 items in the time period, the average cost is
(p. 443)

A. $12.
B. $2.
C. $6.
D. $4.
E. $10.

AACSB: 8 Financial
Chapter: 17
Difficulty: Medium
LearnObj: 3
Perreault - Chapter 17 #126
Question Type: Application
Self-Test: No

127. A producer incurred costs of $54,000 for labor and materials and $26,000 for fixed overhead expenses in a year. The firm produced 20,000 units during the year. If the producer desires a profit of $1 per unit in the coming year, what should the producer's selling price be using average-cost pricing?
(p. 443)

A. $3.70.
B. $2.30.
C. $5.00.
D. $6.00.
E. Cannot be determined from the information provided.

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #127
Question Type: Mathematical
Self-Test: No

128. Average-cost pricing:
(p. 442-443)

A. May be very profitable if actual sales are higher than expected.
B. May lose money for the firm is actual sales are less than expected.
C. Does not take demand into account in setting prices.
D. Is simple in theory but often fails in practice.
E. All of the above.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #128
Question Type: Comprehension
Self-Test: No

129. The basic problem with the average-cost approach is that it
(p. 442)

A. does not consider cost variations at different levels of output.
B. does not consider historical values.
C. does not add a reasonable markup to the average cost of a product.
D. is not commonly used.
E. is a complex method.

AACSB: 10 Org Dynamics
Chapter: 17
Difficulty: Medium
LearnObj: 3
Perreault - Chapter 17 #129
Question Type: Definition
Self-Test: No

130. Average-cost pricing may lead to losses because there are a variety of costs—and each changes
(p. 443)

A. in a similar fashion.
B. in a different way as output changes.
C. in a similar fashion with time.
D. in an exponential manner.
E. in a highly predictable and similar manner.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #130
Question Type: Definition
Self-Test: No

131. Total fixed cost:
(p. 443)

A. is the sum of all expenses which are closely related to output.
B. is the sum of those costs which do not change in total no matter how much is produced.
C. may vary in the short run--but is more or less fixed in the long run.
D. is the sum of all costs of manufacturing and distributing a product.
E. would be zero if the quantity produced were zero.

AACSB: 8 Financial
Chapter: 17
Difficulty: Medium
LearnObj: 3
Perreault - Chapter 17 #131
Question Type: Comprehension
Self-Test: No

132. The sum of those costs that do not change in total--no matter how much is produced--is called:
(p. 443)

A. total fixed cost.
B. total cost.
C. total variable cost.
D. total direct cost.
E. both A and C.

AACSB: 8 Financial
Chapter: 17
Difficulty: Medium
LearnObj: 3
Perreault - Chapter 17 #132
Question Type: Definition
Self-Test: No

133. Total fixed cost
(p. 443)

A. is dependent on production volumes.
B. stays the same even if production stops temporarily.
C. includes wages and sales commissions.
D. is the sum of average fixed costs and variable overheads.
E. is dependent on minor changes in output volume.

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #133
Question Type: Definition
Self-Test: No

134. Which of the following is an example of a fixed cost?
(p. 443)

A. Wages
B. Outgoing freight
C. Depreciation
D. Sales commissions
E. Packaging material expense

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #134
Question Type: Definition
Self-Test: No

135. Which of the following would NOT be included in a producer's total fixed cost?
(p. 443)

A. Rent
B. Property taxes
C. Insurance
D. Depreciation
E. Component parts

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Medium
LearnObj: 3
Perreault - Chapter 17 #135
Question Type: Application
Self-Test: No

136. The sum of those changing expenses which are closely related to output is called:
(p. 443)

A. total fixed cost.
B. total cost.
C. total overhead cost.
D. total variable cost.
E. Both C and D.

AACSB: 8 Financial
Chapter: 17
Difficulty: Medium
LearnObj: 3
Perreault - Chapter 17 #136
Question Type: Definition
Self-Test: No

137. Total variable cost:
(p. 443)

A. is zero when the quantity produced is zero.
B. is the sum of those changing expenses that are closely related to output.
C. may decrease as the quantity produced is increased.
D. All of the above are true.
E. Both A and B are true.

AACSB: 8 Financial
Chapter: 17
Difficulty: Medium
LearnObj: 3
Perreault - Chapter 17 #137
Question Type: Comprehension
Self-Test: No

138. A sales rep is paid a commission on each product sold. The commission is:
(p. 443)

A. part of the total fixed cost.
B. part of the total variable cost.
C. not included in figuring average cost.
D. part of the total cost, but not specifically a fixed cost or a variable cost.
E. None of the above is true.

AACSB: 10 Org Dynamics
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #138
Question Type: Application
Self-Test: No

139. Which of the following would NOT be included in a firm's total variable cost?
(p. 443)

A. Outgoing freight
B. Packaging materials
C. Depreciation on buildings
D. Expenses for parts
E. Sales commissions

AACSB: 10 Org Dynamics
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #139
Question Type: Application
Self-Test: No

140. Which of the following is an example of a variable cost for a producer?
(p. 443)

A. Depreciation.
B. Managers' salaries.
C. Rent.
D. Packaging materials.
E. Property taxes.

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #140
Question Type: Definition
Self-Test: No

141. Henry has classified the following items under variable costs. Which item has he classified incorrectly?
(p. 443)

A. Expenses for parts
B. Wages
C. Outgoing freight
D. Property taxes
E. Packaging material expense

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 3
Perreault - Chapter 17 #141
Question Type: Comprehension
Self-Test: No

142. At zero output, total variable cost is
(p. 443)

A. higher than total fixed cost.
B. equal to total fixed cost.
C. unity.
D. zero.
E. substantial.

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #142
Question Type: Definition
Self-Test: No

143. Total cost:
(p. 443)

A. increases directly with increases in total variable cost.
B. is zero at zero output.
C. is fixed in total no matter how much is produced.
D. increases directly with increases in total fixed cost.
E. All of the above are true except A.

AACSB: 8 Financial
Chapter: 17
Difficulty: Medium
LearnObj: 3
Perreault - Chapter 17 #143
Question Type: Comprehension
Self-Test: No

144. Which of the following costs do not change with an increase in output?
(p. 443)

A. Total variable cost
B. Total fixed cost
C. Total cost
D. Average total cost per unit
E. Average fixed cost per unit

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #144
Question Type: Comprehension
Self-Test: No

145. Average cost is obtained by dividing:
(p. 443)

A. total fixed cost by the related quantity.
B. marginal cost by marginal revenue.
C. total cost by the related quantity.
D. average fixed cost and average variable cost by the quantity produced.
E. total variable cost by the related quantity.

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #145
Question Type: Definition
Self-Test: No

146. Which of the following costs decrease with increase in output?
(p. 444)

A. Total variable cost
B. Total fixed cost
C. Total cost
D. Average fixed cost per unit
E. Sales commissions

AACSB: 8 Financial
Chapter: 17
Difficulty: Hard
LearnObj: 3
Perreault - Chapter 17 #146
Question Type: Comprehension
Self-Test: No

147. As output increases, average cost decreases continually because
(p. 444-445)

A. average variable cost per unit is increasing.
B. average fixed cost per unit is decreasing.
C. total variable cost is increasing.
D. total variable cost is decreasing.
E. total fixed cost is reducing.

AACSB: 8 Financial
Chapter: 17
Difficulty: Hard
LearnObj: 3
Perreault - Chapter 17 #147
Question Type: Comprehension
Self-Test: No

148. Average fixed costs:
(p. 444)

A. increase as the quantity produced increases.
B. decline for a while as output increases and then begin to rise again.
C. decrease steadily as output increases.
D. are less than average variable costs at all output levels.
E. Both C and D.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 3
Perreault - Chapter 17 #148
Question Type: Comprehension
Self-Test: No

149. When a firm's average variable cost is constant--no matter how much is produced--then the firm's:
(p. 444-445)

A. average cost will increase as the quantity produced increases.
B. fixed cost must be zero.
C. average cost will also be constant.
D. average fixed cost will also be constant.
E. average cost will decrease as the quantity produced increases.

AACSB: 10 Org Dynamics
Chapter: 17
Difficulty: Hard
LearnObj: 3
Perreault - Chapter 17 #149
Question Type: Comprehension
Self-Test: No

150. A college "marketing club" printed 1,000 "We're Number 1" bumper stickers for sale at $3.00 each as a fund-raiser. Its fixed costs were $500, and the variable cost for each sticker was $.50. The club's average cost was:
(p. 443-444)

A. $2.00.
B. $2.50.
C. $.50.
D. $1.00.
E. There is not enough information to tell.

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #150
Question Type: Application
Self-Test: No

151. The total fixed costs are $10,000, and the average variable cost per unit is $3. For a production volume of 10,000 units, the average cost per unit is
(p. 443-444)

A. $3.
B. $1.
C. $4.
D. $3.3.
E. $10.

AACSB: 8 Financial
Chapter: 17
Difficulty: Hard
LearnObj: 3
Perreault - Chapter 17 #151
Question Type: Application
Self-Test: No

152. The big problem with average-cost pricing is that:
(p. 445)

A. fixed costs are hard to estimate.
B. it ignores the firm's demand curve.
C. it doesn't consider the effect of variable costs.
D. there is no way to include a desired profit per unit.
E. None of the above is true.

AACSB: 6. Reflective thinking
Chapter: 17
Difficulty: Medium
LearnObj: 3
Perreault - Chapter 17 #152
Question Type: Comprehension
Self-Test: No

153. "Average-cost pricing":
(p. 445)

A. will result in losses if actual sales are much higher than expected.
B. might cause a firm to charge too high or too low a price--and reduce its profits.
C. usually assumes the firm will sell a larger quantity than the year before.
D. cannot be profitable--because it ignores demand.
E. All of the above.

AACSB: 6. Reflective thinking
Chapter: 17
Difficulty: Hard
LearnObj: 3
Perreault - Chapter 17 #153
Question Type: Comprehension
Self-Test: No

154. The major weakness of "average-cost pricing" is that:
(p. 445)

A. it ignores likely customer demand at different prices.
B. it usually leads to losses instead of profits.
C. average fixed cost changes at different levels of output.
D. it is too hard for most managers to use.
E. Both A and C.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 3
Perreault - Chapter 17 #154
Question Type: Comprehension
Self-Test: No

155. Average-cost pricing will result in larger than expected profit:
(p. 445)

A. most of the time.
B. if the average fixed cost estimate is based on a quantity that is smaller than the actual quantity sold.
C. if the average total cost is higher than expected.
D. only if the manager makes arithmetic errors in computing average variable cost.
E. None of the above is correct.

AACSB: 10 Org Dynamics
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #155
Question Type: LearnAid
Self-Test: Self-Test & Learn Aid

156. Average-cost pricing
(p. 445)

A. always results in a profit that is less than what was expected.
B. will work out as expected when the firm's actual average fixed cost per unit is what was estimated when prices were set.
C. sets the price at the point where average fixed cost is equal to average variable cost.
D. ignores variable costs.
E. is the only way to ensure that the firm will set a profitable price.

AACSB: 10 Org Dynamics
Chapter: 17
Difficulty: Easy
LearnObj: 3
Perreault - Chapter 17 #156
Question Type: Self-Test
Self-Test: Self-Test

157. Average-cost pricing
(p. 445)

A. will result in disappointing profits when the firm sells more than it expected to sell.
B. will never lead to a higher than expected profit.
C. takes the demand curve into account when calculating a price.
D. is most likely to result in the expected level of profit when demand is inelastic within the range of possible prices.
E. All of the above are true.

AACSB: 10 Org Dynamics
Chapter: 17
Difficulty: Hard
LearnObj: 3
Perreault - Chapter 17 #157
Question Type: Comprehension
Self-Test: No

158. Identify a weakness of the average-cost approach.
(p. 446)

A. It ignores competitors' costs and prices.
B. It does not consider historical values.
C. It does not add a reasonable markup to the average cost of a product.
D. It is not commonly used.
E. It is a complex method.

AACSB: 8 Financial
Chapter: 17
Difficulty: Medium
LearnObj: 3
Perreault - Chapter 17 #158
Question Type: Definition
Self-Test: No

159. At break-even point (BEP),
(p. 446)

A. the firm's total revenue will equal its variable costs.
B. the firm's total sales will equal its total production.
C. the firm's total cost will equal its total revenue.
D. the firm's total profits will equal its total cost.
E. the firm's total variable costs equal its total fixed cost.

AACSB: 8 Financial
Chapter: 17
Difficulty: Medium
LearnObj: 4
Perreault - Chapter 17 #159
Question Type: Definition
Self-Test: No

160. A firm's "break-even point" is that point where:
(p. 446)

A. maximum profit is earned.
B. total variable cost just equals total revenue.
C. the target return on investment is earned.
D. total cost just equals total revenue.
E. Both C and D are true.

AACSB: 10 Org Dynamics
Chapter: 17
Difficulty: Easy
LearnObj: 4
Perreault - Chapter 17 #160
Question Type: Definition
Self-Test: No

161. The BEP, in units, can be found by dividing
(p. 447)

A. total fixed costs by the fixed cost contribution per unit.
B. total variable costs by the variable cost contribution per unit.
C. total variable costs by the fixed cost contribution per unit.
D. the assumed selling price per unit by the variable cost per unit.
E. total variable costs by target return.

AACSB: 8 Financial
Chapter: 17
Difficulty: Medium
LearnObj: 4
Perreault - Chapter 17 #161
Question Type: Comprehension
Self-Test: No

162. In a typical break-even analysis, a firm's fixed-cost contribution per unit:
(p. 447)

A. is the assumed selling price per unit minus the variable cost per unit.
B. is the assumed selling price per unit minus the average fixed cost.
C. usually decreases as the quantity produced increases.
D. is total fixed cost divided by the quantity produced.
E. usually increases as the quantity produced increases.

AACSB: 8 Financial
Chapter: 17
Difficulty: Medium
LearnObj: 4
Perreault - Chapter 17 #162
Question Type: Comprehension
Self-Test: No

163. Spruce Pine Mfg. Co. has total fixed costs of $300,000 a year. The owner estimates that average variable costs for its product will be about $30 next year. The selling price to wholesalers will be $50. The break-even point is:
(p. 447)

A. 6,000 units.
B. 10,000 units.
C. 12,000 units.
D. 15,000 units.
E. None of the above is correct.

AACSB: 8 Financial
Chapter: 17
Difficulty: Medium
LearnObj: 4
Perreault - Chapter 17 #163
Question Type: Application
Self-Test: No

164. You are considering opening a fast-food store. Your fixed costs for the required land, building, parking lot paving, kitchen equipment, and neon sign will be $1,000,000. The variable cost will be $1.89 for servings which will sell for $2.89. How many servings must you sell to break even?
(p. 447)

A. 1,000,000
B. 1,200,000
C. 2,890,000
D. 189,000
E. Cannot be determined from the data given.

AACSB: 8 Financial
Chapter: 17
Difficulty: Medium
LearnObj: 4
Perreault - Chapter 17 #164
Question Type: Mathematical
Self-Test: No

165. *(p. 447)* If a firm's total fixed cost is $400,000 and its fixed cost contribution per unit is $10, its break-even in units is:

A. 30,000.
B. 40,000.
C. 10,000.
D. 20,000.
E. Cannot be determined with this information.

AACSB: 10 Org Dynamics
Chapter: 17
Difficulty: Easy
LearnObj: 4
Perreault - Chapter 17 #165
Question Type: Mathematical
Self-Test: No

166. *(p. 447)* A company has total fixed cost of $120,000. Its variable cost per unit is $2.00 and its price per unit is $3.50. The break-even point in units is:

A. 60,000.
B. 80,000.
C. 34,286.
D. 21,818.
E. Cannot be determined from the information provided.

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 4
Perreault - Chapter 17 #166
Question Type: Comprehension
Self-Test: No

167. *(p. 447)* Given the following data, determine the break-even point in units:
Total fixed cost = $120,000
Variable cost per unit = $0.60
Selling price per unit = $1.10

A. 100,000
B. 240,000
C. 200,000
D. 218,182
E. 50,000

AACSB: 8 Financial
Chapter: 17
Difficulty: Medium
LearnObj: 4
Perreault - Chapter 17 #167
Question Type: Mathematical
Self-Test: No

168. Given the following data, compute the BEP in units:
(p. 447) Selling price = $2.00
Variable cost = $0.75
Fixed cost = $250,000

A. 333,334
B. 200,000
C. 125,000
D. 400,000
E. Cannot be determined with this information.

AACSB: 8 Financial
Chapter: 17
Difficulty: Medium
LearnObj: 4
Perreault - Chapter 17 #168
Question Type: Mathematical
Self-Test: No

169. The price per unit is $1.00. The average variable cost per unit is 60 cents. The total fixed cost is
(p. 447) $20,000. Compute the break-even point.

A. 75,000 units
B. 50,000 units
C. 20,000 units
D. 33,334 units
E. 40,000 units

AACSB: 8 Financial
Chapter: 17
Difficulty: Hard
LearnObj: 4
Perreault - Chapter 17 #169
Question Type: Mathematical
Self-Test: No

170. Given the following data, compute the BEP in DOLLARS:
(p. 447) Selling price = $2.00
Variable cost = $1.00
Fixed cost = $150,000

A. $300,000
B. $400,000
C. $100,000
D. $200,000
E. $50,000

AACSB: 8 Financial
Chapter: 17
Difficulty: Hard
LearnObj: 4
Perreault - Chapter 17 #170
Question Type: Mathematical
Self-Test: No

171. A company has total fixed cost of $400,000. Its fixed-cost contribution per unit is $10.00, and its price per unit is $5.00. What is the break-even point in sales dollars?
(p. 447)

A. $200,000.
B. $2,000,000.
C. $4,000,000.
D. $800,000.
E. Cannot be determined from the information provided.

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 4
Perreault - Chapter 17 #171
Question Type: Comprehension
Self-Test: No

172. Break-even analysis usually:
(p. 447-448)

A. makes it appear that any quantity can be sold at the assumed price.
B. suggests that profits will grow rapidly as sales volume increases beyond the break-even point.
C. is quite accurate in maximizing profit.
D. assumes a U-shaped average variable cost curve.
E. Both A and B.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 4
Perreault - Chapter 17 #172
Question Type: Comprehension
Self-Test: No

173. A typical break-even analysis assumes that:
(p. 447-448)

A. the fixed-cost contribution per unit increases as units sold increases.
B. average fixed cost per unit is the same regardless of quantity sold.
C. demand curves are downward sloping.
D. average variable cost is the same regardless of quantity sold.
E. None of the above is true.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 4
Perreault - Chapter 17 #173
Question Type: Self-Test
Self-Test: Self-Test

174. Break-even analysis can show:
(p. 447-448)

A. which prices will not be profitable.
B. the most profitable price for a firm's product.
C. how the firm's variable cost per unit will drop as output rises.
D. the firm's most profitable output level.
E. when a firm should cut its price to increase sales.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 4
Perreault - Chapter 17 #174
Question Type: Comprehension
Self-Test: No

175. Break-even analysis
(p. 447-448)

A. assumes that the demand curve is perfectly horizontal at the selling price.
B. reveals the price that will earn the highest profit.
C. cannot be used for comparing several different alternatives (for example, assuming different prices).
D. all of the above.
E. none of the above.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Hard
LearnObj: 4
Perreault - Chapter 17 #175
Question Type: Comprehension
Self-Test: No

176. Break-even analysis can be useful for:
(p. 447-448)

A. estimating future sales.
B. setting the most profitable price.
C. comparing pricing alternatives.
D. relating assumed prices to demand estimates.
E. All of the above.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 4
Perreault - Chapter 17 #176
Question Type: Comprehension
Self-Test: No

177. Regarding break-even analysis, a good marketing manager knows that:
(p. 447-448)

A. a high fixed-cost contribution per unit will lead to high profits.
B. assuming a straight-line total revenue curve incorrectly suggests that any quantity can be sold at the assumed price.
C. break-even analysis is useless for comparing pricing alternatives.
D. the usual straight-line total cost curve applies only when economies of scale exist.
E. All of the above are true.

AACSB: 10 Org Dynamics; 11 Analysis for decisions
Chapter: 17
Difficulty: Hard
LearnObj: 4
Perreault - Chapter 17 #177
Question Type: Comprehension
Self-Test: No

178. Break-even charts usually assume that:
(p. 447-448)

A. total cost and total revenue curves are straight lines.
B. average variable cost is constant per unit.
C. the break-even point is reached when total cost just equals total revenue.
D. any quantity can be sold at the assumed price.
E. All of the above.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 4
Perreault - Chapter 17 #178
Question Type: Comprehension
Self-Test: No

179. A typical break-even analysis assumes that:
(p. 447-448)

A. the total revenue curve is a straight line.
B. the demand curve faced by the firm is horizontal.
C. the average variable cost is the same at different levels of output.
D. All of the above.
E. None of the above.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 4
Perreault - Chapter 17 #179
Question Type: Comprehension
Self-Test: No

180. Which of the following pricing approaches specifically considers the concept of elasticity of demand?
(p. 438-448)

A. Break-even pricing.
B. Average-cost pricing.
C. Markup pricing.
D. Fixed cost pricing.
E. None of the above.

AACSB: 10 Org Dynamics
Chapter: 17
Difficulty: Medium
LearnObj: 5
Perreault - Chapter 17 #180
Question Type: Comprehension
Self-Test: No

181. Trying to find the most profitable price and quantity to produce:
(p. 448)

A. requires average-cost pricing.
B. requires an estimate of the firm's demand curve.
C. is easy once the average fixed cost is known.
D. is only sensible if demand estimates are exact.
E. All of the above are true.

AACSB: 10 Org Dynamics
Chapter: 17
Difficulty: Easy
LearnObj: 5
Perreault - Chapter 17 #181
Question Type: LearnAid
Self-Test: Self-Test & Learn Aid

182. What is the best pricing tool marketers have for looking at costs and revenue at the same time?
(p. 448)

A. Break-even analysis
B. Fixed-cost pricing method
C. Average-cost pricing method
D. Marginal analysis
E. Standard markup method

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 5
Perreault - Chapter 17 #182
Question Type: Definition
Self-Test: No

183. The main advantage that marginal analysis has over most other popular pricing methods is that it:
(p. 448)

A. Considers both fixed and variable costs.
B. Takes into account the break-even point.
C. Allows managers to evaluate pricing alternatives.
D. Takes into account both costs and demand.
E. Incorporates the markup chain.

AACSB: 9 Value creation
Chapter: 17
Difficulty: Easy
LearnObj: 5
Perreault - Chapter 17 #183
Question Type: Comprehension
Self-Test: No

184. Marginal analysis
(p. 448)

A. assumes that the firm's total revenue curve is a straight line.
B. bases the analysis on the cost of the first few units sold.
C. explicitly considers demand when calculating price.
D. All of the above are correct.
E. None of the above is correct.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 5
Perreault - Chapter 17 #184
Question Type: Comprehension
Self-Test: No

185. A firm in monopolistic competition with a down-sloping demand curve:
(p. 448)

A. does not have to worry about price competition due to the nature of its demand curve.
B. can use marginal analysis to help it maximize profits.
C. will have to charge the "market price" which is set by the intersection of industry supply and demand.
D. could use marginal analysis to compare alternatives--but this would not help in pricing because this method focuses on selling one more unit and therefore ignores total profitability.
E. All of the above are true.

AACSB: 11 Analysis for decisions; 9 Value creation
Chapter: 17
Difficulty: Hard
LearnObj: 5
Perreault - Chapter 17 #185
Question Type: Comprehension
Self-Test: No

186. Marginal analysis:
(p. 448)

A. can be very useful if a firm's pricing objective is profit maximization.
B. focuses on the last unit which will be sold.
C. can be used to find the most profitable price and quantity.
D. can help find where the difference between total revenue and total cost is greatest.
E. All of the above.

AACSB: 9 Value creation
Chapter: 17
Difficulty: Easy
LearnObj: 5
Perreault - Chapter 17 #186
Question Type: Comprehension
Self-Test: No

187. The price that maximizes profit is the one that results in the greatest difference between
(p. 449)

A. total cost and total fixed cost.
B. total revenue and total cost.
C. average cost and average variable cost.
D. total revenue and average variable cost.
E. total revenue and average fixed cost.

AACSB: 9 Value creation
Chapter: 17
Difficulty: Medium
LearnObj: 5
Perreault - Chapter 17 #187
Question Type: Comprehension
Self-Test: No

188. In marginal analysis, the profit maximizing point is the point at which:
(p. 449)

A. Profit is based on competitive pricing.
B. Total revenue and total cost are equal.
C. The difference between total revenue and total cost is maximized.
D. Profit is based on average-cost pricing.
E. Both A and C.

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 5
Perreault - Chapter 17 #188
Question Type: Comprehension
Self-Test: No

189. If a profit-oriented marketing manager doesn't know the exact shape of the firm's demand curve, marginal analysis:
(p. 449-450)

A. is useless.
B. may be useful anyway--because a profitable region usually surrounds the best price.
C. will suggest the same price as break-even analysis.
D. suggests that the only sensible approach is to use average-cost pricing.
E. None of the above is true.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 5
Perreault - Chapter 17 #189
Question Type: Comprehension
Self-Test: No

190. Marginal analysis
(p. 449-450)

A. reveals the range of prices that should be profitable.
B. can be used to set prices, but it does not give you any idea what quantity might be sold at that price.
C. is not applicable to competitive situations.
D. All of the above are true.
E. None of the above is true.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 5
Perreault - Chapter 17 #190
Question Type: Comprehension
Self-Test: No

191. Customers are likely to be less price sensitive when:
(p. 450)

A. it is easy to compare prices.
B. someone else pays the bill.
C. the total expenditure is high.
D. there are substitutes available.
E. their share of the cost is high.

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Medium
LearnObj: 6
Perreault - Chapter 17 #191
Question Type: Application
Self-Test: No

192. A publisher needed one of its best-selling authors to fly from his home in Richmond, Virginia to Chicago, Illinois in order to start a publicity campaign for the author's new book. The author could have taken a flight to Detroit, Michigan, changed planes, and then flew on to Chicago for about half the price of a non-stop flight from Richmond to Chicago. However, he chose the non-stop flight. He became less price sensitive because of:
(p. 450)

A. The availability of substitutes.
B. The fact that someone else was paying the bill.
C. The significance of the end benefit.
D. The size of the total expenditure.
E. The sunken investment he had made.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 6
Perreault - Chapter 17 #192
Question Type: Application
Self-Test: No

193. Customers tend to be more price sensitive
(p. 450)

A. the greater the total expenditure.
B. when someone else pays the bill.
C. when someone else shares the cost.
D. the greater the significance of the end benefit of the purchase.
E. the lesser the total expenditure.

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Easy
LearnObj: 6
Perreault - Chapter 17 #193
Question Type: Definition
Self-Test: No

194. Customers are likely to be less price sensitive when:
(p. 450)

A. the greater the total expenditure.
B. the greater their share of the cost.
C. the greater the significance of the end benefit.
D. the easier it is to compare prices.
E. None of the above.

AACSB: 9 Value creation
Chapter: 17
Difficulty: Medium
LearnObj: 6
Perreault - Chapter 17 #194
Question Type: Application
Self-Test: No

195. _____ are costs that a customer faces by buying a product that is different from what has been purchased or used in the past.
(p. 451)

A. Marginal costs
B. First-mover costs
C. Switching costs
D. Pioneering costs
E. Opportunity costs

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 6
Perreault - Chapter 17 #195
Question Type: Definition
Self-Test: No

196. Customers are likely to be more price sensitive when:
(p. 450-451)

A. the total expenditure is great.
B. they have to pay the bill themselves.
C. the end benefit isn't very significant.
D. they haven't yet spent any money related to the purchase.
E. All of the above.

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Medium
LearnObj: 6
Perreault - Chapter 17 #196
Question Type: Application
Self-Test: No

197. Which of the following applies to "value in use pricing?"
(p. 452)

A. How much profit will the firm make?
B. How much will the customer save?
C. What does a competitor offer?
D. How much can the customer afford?
E. What is break-even pricing?

AACSB: 9 Value creation
Chapter: 17
Difficulty: Medium
LearnObj: 7
Perreault - Chapter 17 #197
Question Type: Definition
Self-Test: No

198. Value in use pricing
(p. 452)

A. does not vary from one product to another.
B. sets a price that will capture some of what customers will save by substituting the firm's product for the one currently being used.
C. merely sets the price at what customers expect to pay.
D. sets a rather high price to suggest high quality or high status.
E. is determined by online auctions.

AACSB: 9 Value creation
Chapter: 17
Difficulty: Medium
LearnObj: 7
Perreault - Chapter 17 #198
Question Type: Comprehension
Self-Test: No

199. An automobile manufacturer charges a higher price for its "hybrid" car that runs on both electricity and gasoline than it charges for a car that runs on only gasoline. The manufacturer contends that the consumer will save money with the hybrid car in the long run because the money saved on gasoline will more than cover the price differential between the hybrid car and a regular car. This manufacturer is using:
(p. 452)

A. Price leadership.
B. Price lining.
C. Value in use pricing.
D. Psychological pricing.
E. Reference pricing.

AACSB: 9 Value creation
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #199
Question Type: Comprehension
Self-Test: No

200. An equipment producer is introducing a new type of paint sprayer to sell to automobile body-repair shops. The sprayer saves labor time, gives as good a job with less expensive paint, and requires less work polishing. The seller should probably use:
(p. 452)

A. leader pricing.
B. bait pricing.
C. complementary product pricing.
D. odd-even pricing.
E. value in use pricing.

AACSB: 9 Value creation
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #200
Question Type: LearnAid
Self-Test: Self-Test & Learn Aid

201. Sellers sometimes take the auction approach and adapt it by using sequential price reductions over time. When or where is this approach most commonly used?
(p. 453)

A. With products that have a short life.
B. When the product supply is unlimited.
C. With heavy equipment manufacturing machinery.
D. With products that have extremely low inventory costs.
E. When competition is absent.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Hard
LearnObj: 7
Perreault - Chapter 17 #201
Question Type: Comprehension
Self-Test: No

202. Which of the following observations concerning a "reference price" is true?
(p. 453)

A. Reference price is the company's cost to produce the product.
B. Reference price is set by regulators.
C. Demand may increase if a firm's price is lower than a customer's reference price.
D. All customers have the same reference prices for the same basic type of purchase.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Hard
LearnObj: 7
Perreault - Chapter 17 #202
Question Type: Comprehension
Self-Test: No

203. Which of the following statements concerning "reference prices" is FALSE?
(p. 455)

A. A reference price is the price consumers expect to pay for an item.
B. Retailers sometimes want consumers to use the manufacturer's list price as the reference price even though their actual retail selling price is lower.
C. Different customers may have different reference prices for the same type of purchase.
D. Leader pricing is normally used with products for which consumers do not have a specific reference price.
E. None of the above is false.

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #203
Question Type: Self-Test
Self-Test: Self-Test

204. Leader pricing:
(p. 454-455)

A. seeks a big profit on the leader items.
B. is usually used for a retailer's major product line--to give it a competitive advantage.
C. is different from bait pricing in that the marketing manager really expects to sell leader priced items.
D. assumes that some part of the demand curve is upward sloping to the right.
E. is banned in interstate commerce.

AACSB: 8 Financial
Chapter: 17
Difficulty: Medium
LearnObj: 7
Perreault - Chapter 17 #204
Question Type: Comprehension
Self-Test: No

205. A retailer of men's suits who is advertising a popular brand of dress shirts at a reduced price to attract customers is using:
(p. 454)

A. price lining.
B. leader pricing.
C. odd-even pricing.
D. bait pricing.
E. prestige pricing.

AACSB: 9 Value creation
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #205
Question Type: Application
Self-Test: No

206. A CVS drugstore that is trying to attract customers by advertising a special bargain price on a popular brand of cold remedy during the cold season is using:
(p. 454)

A. leader pricing.
B. bait pricing.
C. prestige pricing.
D. odd-even pricing.
E. price lining.

AACSB: 9 Value creation
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #206
Question Type: Application
Self-Test: No

207. Walgreens Drugstores advertises that its Tylenol prices are "the lowest in town" in order to stimulate sales of other products along with Tylenol. This is an example of:
(p. 454)

A. skimming.
B. value in use pricing.
C. bait pricing.
D. price lining.
E. leader pricing.

AACSB: 9 Value creation
Chapter: 17
Difficulty: Medium
LearnObj: 7
Perreault - Chapter 17 #207
Question Type: Application
Self-Test: No

208. A retail store advertises an SLR digital camera for $350. Once bargain hunters come to the store, salespeople point out the disadvantages of the low-priced camera and try to convince them to trade up to a better, and more expensive, unit. This is an example of
(p. 455)

A. price following.
B. bait pricing.
C. odd-even pricing.
D. low pricing.
E. everyday low pricing.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 7
Perreault - Chapter 17 #208
Question Type: Comprehension
Self-Test: No

209. A computer store regularly advertises a very low price for a well-known brand of disks. When the customers come in, however, the salespeople point out the disadvantages of this particular brand and try to persuade them to buy other disks at much higher prices. This retailer is using:
(p. 455)

A. bait pricing.
B. odd-even pricing.
C. psychological pricing.
D. leader pricing.
E. price lining.

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #209
Question Type: Application
Self-Test: No

210. A retailer who advertises a low price on an item--with no intent to sell that item--but only to attract customers to try to sell more expensive products is using:
(p. 455)

A. full-line pricing.
B. leader pricing.
C. odd-even pricing.
D. psychological pricing.
E. bait pricing.

AACSB: 2 Ethical reasoning
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #210
Question Type: Definition
Self-Test: No

211. A tire retailer is advertising a very low price on a popular size tire. When a customer comes into the store, the clerk says the low-priced item is sold out, and tries to convince the customer to buy the top-of-the-line model--claiming the low priced model is not a very good buy even at the low price. This is an example of:
(p. 455)

A. leader pricing.
B. full-line pricing.
C. value in use pricing.
D. price lining.
E. bait pricing.

AACSB: 2 Ethical reasoning
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #211
Question Type: Application
Self-Test: No

212. Regarding pricing:
(p. 455)

A. the use of prestige and psychological pricing shows that most retailers do not consider demand when setting prices.
B. bait pricing tries to attract customers on the high end of a demand curve.
C. the FTC considers bait pricing a deceptive act and has banned its use in interstate commerce.
D. leader-priced items are priced very low to get customers into the store--not to sell these items.
E. All of the above are true.

AACSB: 2 Ethical reasoning
Chapter: 17
Difficulty: Hard
LearnObj: 7
Perreault - Chapter 17 #212
Question Type: Integrating
Self-Test: No

213. Some retailers feel that their potential customers find certain prices appealing, but between these prices the customers see prices as roughly the same--and thus price cuts within these ranges will not increase the quantity sold (i.e., the demand curve is vertical within these "same price" ranges). These retailers probably use _____ if they want to maximize profit.
(p. 455)

A. average-cost pricing
B. bait pricing
C. leader pricing
D. prestige pricing
E. psychological pricing

AACSB: 9 Value creation
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #213
Question Type: Application
Self-Test: No

214. Gabriella Sax believes that customers in her dress shop find certain prices very appealing. Between these price levels, all prices are seen as roughly the same--and price cuts in these ranges generally do not increase the quantity sold (i.e., the demand curve tends to drop vertically within these price ranges). Therefore, Sax prices her items as close as possible to the top of each such price range. This is:
(p. 455)

A. bait pricing.
B. prestige pricing.
C. leader pricing.
D. psychological pricing.
E. odd-even pricing.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 7
Perreault - Chapter 17 #214
Question Type: Application
Self-Test: No

215. The manager of Hot Topics Fashion Shop has concluded that her customers find certain prices very appealing. Customers see prices above or below these levels as roughly equal--and price cuts in these ranges don't increase sales. This seems to call for
(p. 455)

A. prestige pricing.
B. bait pricing.
C. leader pricing.
D. psychological pricing.
E. odd-even pricing.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #215
Question Type: LearnAid
Self-Test: Self-Test & Learn Aid

216. Some retailers commonly use prices that end in certain numbers. They seem to assume that their customers see prices with these numbers as substantially lower. This is:
(p. 455)

A. odd-even pricing.
B. demand-backward pricing.
C. leader pricing.
D. prestige pricing.
E. psychological pricing.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 7
Perreault - Chapter 17 #216
Question Type: Definition
Self-Test: No

217. Which of the following prices is most likely to be seen if a firm is using odd-even pricing?
(p. 455)

A. $9.00
B. $2.03
C. $6.60
D. $99.95
E. $100.00

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Hard
LearnObj: 7
Perreault - Chapter 17 #217
Question Type: Application
Self-Test: No

218. Setting a few price levels for a product line and then marking all items at these price levels is:
(p. 455)

A. leader pricing.
B. price lining.
C. product-bundle pricing.
D. penetration pricing.
E. odd-even pricing.

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #218
Question Type: Definition
Self-Test: No

219. The practice of setting different price levels for different quality classes of merchandise--with no prices between the classes--is called:
(p. 455)

A. full-line pricing.
B. prestige pricing.
C. price lining.
D. odd-even pricing.
E. psychological pricing.

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #219
Question Type: LearnAid
Self-Test: Self-Test & Learn Aid

220. _____ is setting a few price levels for a product line and then marking all items at these prices.
(p. 455)

A. Price following
B. Bait pricing
C. Odd-even pricing
D. Price lining
E. Price leading

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #220
Question Type: Definition
Self-Test: No

221. Price lining:
(p. 455)

A. is quite similar to prestige pricing.
B. can simplify both buying and selling.
C. tends to reduce turnover rates.
D. results in larger inventories.
E. All of the above.

AACSB: 9 Value creation
Chapter: 17
Difficulty: Medium
LearnObj: 7
Perreault - Chapter 17 #221
Question Type: Comprehension
Self-Test: No

222. *(p. 455)* Alex's Knot Shop prices its ties at $5 intervals from $10 to $25 because most customers find these prices appealing and easier to compare. This is:

A. prestige pricing.
B. penetration pricing.
C. price lining.
D. odd-even pricing.
E. value in use pricing.

AACSB: 11 Analysis for decisions; 9 Value creation
Chapter: 17
Difficulty: Medium
LearnObj: 7
Perreault - Chapter 17 #222
Question Type: Application
Self-Test: No

223. *(p. 456)* "Demand-backward" pricing:

A. starts with an acceptable final consumer price and works backward to what producers can charge.
B. ignores demand estimates.
C. is only sensible when the channel captain is a large retailer.
D. is an average-cost pricing approach.
E. All of the above.

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #223
Question Type: Definition
Self-Test: No

224. *(p. 456)* Good Health Co. has set a suggested retail list price of $40 on its new vitamin tablets on the assumption that its target market will find the product attractive at this price. From this suggested retail list price, Good Health has subtracted its usual chain of markups for wholesalers and retailers to obtain its own selling price of $17. This is:

A. demand-backward pricing.
B. full-line pricing.
C. average-cost pricing.
D. odd-even pricing.
E. prestige pricing.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #224
Question Type: Self-Test
Self-Test: Self-Test

225. Setting relatively high prices to suggest high-quality or high-status is:
(p. 456)

A. odd-even pricing.
B. price lining.
C. leader pricing.
D. psychological pricing.
E. prestige pricing.

AACSB: 11 Analysis for decisions; 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #225
Question Type: Definition
Self-Test: No

226. The idea that people will pay extra for "quality" and status is the idea behind
(p. 456)

A. price lining.
B. average cost approaches to pricing.
C. penetration skimming.
D. prestige pricing.
E. psychological pricing.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 7
Perreault - Chapter 17 #226
Question Type: Comprehension
Self-Test: No

227. Some consumers maintain a "price-quality association," meaning that if a product has a high price, they assume the product must have high quality. This "price-quality association" is the basis for the use of:
(p. 456)

A. Odd-even pricing.
B. Prestige pricing.
C. Leader pricing.
D. Reference pricing.
E. Price lining.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #227
Question Type: Definition
Self-Test: No

228. *(p. 456)* Which of the following pricing approaches should be used by a profit-oriented retailer if its demand curve is down-sloping to the right for awhile--but then actually bends back to the left at lower prices?

A. Psychological pricing
B. Prestige pricing
C. Average-cost pricing
D. Bait pricing
E. Penetration pricing

AACSB: 8 Financial
Chapter: 17
Difficulty: Medium
LearnObj: 7
Perreault - Chapter 17 #228
Question Type: Comprehension
Self-Test: No

229. *(p. 456)* Regarding "full-line pricing," which of the following statements is TRUE?

A. A good marketing manager usually tries to price products in a line so that the prices will seem logically related and make sense to target customers.
B. The marketing manager should try to cover all costs on the whole product line.
C. Most customers seem to feel that prices in a product line should be somewhat related to cost.
D. Not all companies that make a line of products must use full-line pricing.
E. All of the above are true.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #229
Question Type: Self-Test
Self-Test: Self-Test

230. *(p. 452-458)* Which of the following statements is true?

A. Prestige pricing is used to target government buyers.
B. With full-line pricing, all products in the company's line must be targeted at the same market.
C. Demand-backward pricing is used to target industrial buyers.
D. Value pricing can only be used by mass-merchandisers.
E. None of the above is true.

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Medium
LearnObj: 7
Perreault - Chapter 17 #230
Question Type: LearnAid
Self-Test: Self-Test & Learn Aid

231. When Nintendo sets a relatively low price on its game units to stimulate more demand for its game cartridges, it is using
(p. 458)

A. complementary product pricing.
B. product-bundle pricing.
C. price lining.
D. bait pricing.
E. cost plus pricing.

AACSB: 9 Value creation
Chapter: 17
Difficulty: Medium
LearnObj: 7
Perreault - Chapter 17 #231
Question Type: Application
Self-Test: No

232. _____ involves setting one price for a set of products.
(p. 458)

A. Price lining
B. Odd-even pricing
C. Product bundle pricing
D. Bait pricing
E. Price leading

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #232
Question Type: Definition
Self-Test: No

233. When Walgreens Drugstore advertises one price for the cost of a roll of film and the cost of processing it, it is using
(p. 458)

A. complementary product pricing.
B. flexible pricing.
C. product-bundle pricing.
D. a one-price policy.
E. bait pricing.

AACSB: 9 Value creation
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #233
Question Type: Self-Test
Self-Test: Self-Test

234. When consumers decide to purchase a music CD from Amazon.com, the company's website often suggests that consumers purchase an additional CD by the same artist for a combined price that is lower than the two CDs would sell for separately. Amazon.com is using:
(p. 458)

A. Product-bundle pricing.
B. Complementary product pricing.
C. Full-line pricing.
D. Bid pricing.
E. Demand-backward pricing.

AACSB: 9 Value creation
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #234
Question Type: Comprehension
Self-Test: No

235. Fly-Right Travel Agency arranges vacation packages to Disney World in Florida. The price includes airfare, a rental car, deluxe accommodations, and tickets to Disney World and other attractions. Fly-Right is using:
(p. 458)

A. Product-bundle pricing.
B. Complementary product pricing.
C. Full-line pricing.
D. Bid pricing.
E. Demand-backward pricing.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 7
Perreault - Chapter 17 #235
Question Type: Comprehension
Self-Test: No

236. _____ means offering a specific price for each possible job rather than setting a price that applies for all customers.
(p. 458)

A. Price lining
B. Odd-even pricing
C. Product bundle pricing
D. Bid pricing
E. Price leading

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 8
Perreault - Chapter 17 #236
Question Type: Definition
Self-Test: No

237. *(p. 458)* If a service firm sets a specific price for each possible job--rather than setting a price which applies for all potential customers--it is most likely using:

A. product-bundle pricing.
B. a one-price policy.
C. price lining.
D. average-cost pricing.
E. bid pricing.

AACSB: 8 Financial
Chapter: 17
Difficulty: Easy
LearnObj: 8
Perreault - Chapter 17 #237
Question Type: Definition
Self-Test: No

238. *(p. 458)* A paving contractor wants to work on road construction contracts administered and paid for by the state government. The contractor submits a sealed proposal to the state department of transportation for each construction job. The proposal contains a description of how the contractor will fulfill the specifications for the job at a specified price. The contractor is engaging in:

A. Odd-even pricing.
B. Prestige pricing.
C. Leader pricing.
D. Bid pricing.
E. Price lining.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 8
Perreault - Chapter 17 #238
Question Type: Comprehension
Self-Test: No

239. *(p. 459)* With regard to bid pricing, a marketing manager should be aware that:

A. the customer is always required to accept the lowest bid.
B. since it costs very little to submit a bid, most firms try to bid for as many jobs as possible.
C. the same overhead charges and profit rates usually apply to all bids.
D. a big problem is estimating all the costs--including the variable and fixed costs that apply to a particular job.
E. All of the above are true statements.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 8
Perreault - Chapter 17 #239
Question Type: LearnAid
Self-Test: Self-Test & Learn Aid

240. With regard to bid pricing, a marketing manager should be aware that:
(p. 459)

A. the same overhead charges and profit rates usually apply to all bids.
B. bids are usually based on inspection.
C. a big problem is estimating all the costs--including the variable and fixed costs that apply to a particular job.
D. e-commerce is of little use in bid pricing.
E. all of the above are correct.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 8
Perreault - Chapter 17 #240
Question Type: Comprehension
Self-Test: No

241. Regarding bid pricing:
(p. 459)

A. the same overhead changes and profit rates should apply to all bids--to avoid legal problems.
B. most firms should try to bid for as many jobs as possible--to spread risk.
C. all business buyers are legally required to accept the lowest bid--if they ask for bids.
D. the big problem for sellers is estimating all the costs--including the variable and fixed costs--that apply to a particular job.
E. All of the above are true.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Easy
LearnObj: 8
Perreault - Chapter 17 #241
Question Type: Self-Test
Self-Test: Self-Test

242. Which of the following observations is false?
(p. 459)

A. Competition need be considered when adding in overhead and profit for a bid price.
B. Some sellers fake their records to make costs seem higher than they really are.
C. Negotiated price is a price set based on bargaining between the buyer and seller.
D. Negotiated pricing is rare in situations where the marketing mix is adjusted for each customer.
E. Negotiated pricing is a demand-oriented approach.

AACSB: 8 Financial
Chapter: 17
Difficulty: Hard
LearnObj: 8
Perreault - Chapter 17 #242
Question Type: Comprehension
Self-Test: No

243. Which of the following statements concerning "negotiated price" is FALSE?
(p. 460)

A. The negotiated price is set by bargaining between the buyer and the seller.
B. Negotiated pricing is not a demand-oriented approach.
C. Bargaining may involve the whole marketing mix, not just the price level.
D. Sellers must know their costs to negotiate effectively.
E. None of the above is false.

AACSB: 8 Financial
Chapter: 17
Difficulty: Medium
LearnObj: 8
Perreault - Chapter 17 #243
Question Type: Comprehension
Self-Test: No

Use this information for questions that refer to the Sporting Products, Inc. (SPI) case.

Randy Todd, marketing manager for Sporting Products, Inc. (SPI), is thinking about how changes taking place among retailers in his channel might impact his strategy.

SPI sells the products it produces through wholesalers and retailers. For example, SPI sells basketballs to Wholesale Supply for $8.00. Wholesale Supply uses a 20 percent markup and most of its "sport shop" retailer customers, like Robinson's Sporting Goods, use a 33 percent markup to arrive at the price they charge final consumers. However, one fast growing retail chain, Sports Depot, only uses a 20 percent markup for basketballs, even though it pays Wholesale Supply the same price as other retailers. Furthermore, Sports Depot occasionally lowers the price of basketballs and sells them at cost--to draw customers into its stores and stimulate sales of its pricey basketball shoes.

Sports Depot is also using other pricing approaches that are different from the sports shops that usually handle SPI products. For example, Sports Depot prices all of its baseball gloves at $20, $40, or $60--with no prices in between. There are three big bins - one for each price point.

Todd is also curious about how Sports Depot's new strategy to increase sales of tennis balls will work out. The basic idea is to sell tennis balls in large quantities to nonprofit groups who resell the balls to raise money. For example, a service organization at a local college bought 2,000 tennis balls printed with the college logo. Sports Depot charged $.50 each for the tennis balls-plus a $500 one-time charge for the stamp to print the logo. The service group plans to resell the tennis balls for $2.50 each and contribute the profits to a shelter for the homeless.

Todd is not certain if Sports Depot ideas will affect SPI's plans. For example, SPI is considering adding tennis racquets to the lines it produces. This would require a $500,000 addition to its factory as well as the purchase of new equipment that costs $1,000,000. The variable cost to produce a tennis racquet would be $20, but Todd thinks that SPI could sell the racquet at a wholesale price of $40 each. That would allow most retailers to add their normal markup and make a profit. However, if Sports Depot sells the racquet at a lower than normal price other retailers might decide to carry it.

244. What is the final selling price Robinson's Sporting Goods charges for a SPI basketball?
(p. 440)

A. $10.00
B. $15.00
C. $15.75
D. $20.80
E. None of the above.

AACSB: 8 Financial
Chapter: 17
Difficulty: Hard
LearnObj: 1
Perreault - Chapter 17 #244
Question Type: Mathematical
Self-Test: No

245. What is the final selling price Sports Depot charges for a SPI basketball?
(p. 440)

A. $10.00
B. $12.00
C. $12.50
D. $15.00
E. $18.00

AACSB: 8 Financial
Chapter: 17
Difficulty: Hard
LearnObj: 1
Perreault - Chapter 17 #245
Question Type: Application; Mathematical
Self-Test: No

246. By pricing below other retailers, Sports Depot apparently:
(p. 441)

A. hopes to achieve status quo pricing objectives.
B. wants to set prices based on "value in use."
C. relies on a high margin percent.
D. sees this as an oligopoly market.
E. expects a high stockturn rate.

AACSB: 9 Value creation
Chapter: 17
Difficulty: Medium
LearnObj: 2
Perreault - Chapter 17 #246
Question Type: Application
Self-Test: No

247. SPI pays its salespeople a commission on each product they sell. The commission is:
(p. 443)

A. part of the total cost -- but not specifically a fixed or a variable cost.
B. part of the total fixed cost.
C. not included in figuring average cost.
D. a variable cost.
E. none of the above is true.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 3,4
Perreault - Chapter 17 #247
Question Type: Application
Self-Test: No

248. Which of the following would NOT be one of SPI's fixed costs in the production of basketballs?
(p. 443)

A. rent on the building used to store inventory of balls.
B. rubber used to make the balls.
C. property taxes for the building used to make the balls.
D. depreciation on the equipment used to make the balls.
E. insurance on the building used to make the balls.

AACSB: 3 Analytical skills
Chapter: 17
Difficulty: Medium
LearnObj: 3,4
Perreault - Chapter 17 #248
Question Type: Application
Self-Test: No

249. What is the service organization's average cost for the printed tennis balls it buys from Sports Depot?
(p. 443)

A. $.50
B. $.75
C. $.95
D. $1.50
E. $2.00

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 3
Perreault - Chapter 17 #249
Question Type: Mathematical
Self-Test: No

250. How many of the printed tennis balls must the service organization sell to cover the $500 fixed printing charge?
(p. 443-444)

A. 250
B. 400
C. 500
D. 1000
E. 2000

AACSB: 9 Value creation
Chapter: 17
Difficulty: Medium
LearnObj: 4
Perreault - Chapter 17 #250
Question Type: Mathematical
Self-Test: No

251. If SPI produces tennis racquets, how many racquets must it sell at $40 to break even?
(p. 446-447)

A. 50,000
B. 60,000
C. 75,000
D. 100,000
E. none of the above answers is correct.

AACSB: 9 Value creation
Chapter: 17
Difficulty: Medium
LearnObj: 4
Perreault - Chapter 17 #251
Question Type: Mathematical
Self-Test: No

252. How could Randy Todd use break-even analysis with his tennis racquet decision?
(p. 447)

A. To reveal the combination of quantity and price that gives the highest profit.
B. To set the most profitable price.
C. To estimate future sales.
D. To compare the breakeven quantity for different prices with the likely level of demand.
E. To determine Wholesale Supply's likely selling price.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 4
Perreault - Chapter 17 #252
Question Type: Application
Self-Test: No

253. If SPI uses average-cost pricing, a big problem will be:
(p. 442)

A. it ignores the demand curve for its products.
B. fixed costs are too hard to estimate.
C. the effects of variable costs are ignored.
D. the desired profit cannot be included.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 3
Perreault - Chapter 17 #253
Question Type: Application
Self-Test: No

254. Randy Todd wants to use marginal analysis to price the new tennis racquets, but doesn't know the exact shape of the firm's demand curve. Under these circumstances marginal analysis:
(p. 449-450)

A. is useless.
B. may be useful anyway because a profitable region usually surrounds the best price.
C. will suggest the same price as break-even analysis.
D. suggests that the only sensible approach is to use average-cost pricing.
E. none of the above is true.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 5
Perreault - Chapter 17 #254
Question Type: Application
Self-Test: No

255. When Sports Depot temporarily lowers the price of basketballs, it is using:
(p. 454)

A. bait pricing.
B. leader pricing.
C. value-in-use pricing.
D. psychological pricing.
E. prestige pricing.

AACSB: 9 Value creation
Chapter: 17
Difficulty: Medium
LearnObj: 7
Perreault - Chapter 17 #255
Question Type: Application
Self-Test: No

256. The pricing approach Sports Depot uses to price its baseball gloves is called:
(p. 455)

A. odd-even pricing.
B. value-in-use pricing
C. prestige pricing.
D. bait pricing.
E. price lining.

AACSB: 11 Analysis for decisions
Chapter: 17
Difficulty: Medium
LearnObj: 7
Perreault - Chapter 17 #256
Question Type: Application
Self-Test: No

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