

Pricing techniques

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The Peak Load Pricing Technique The Peak Load Pricing Technique Peak load pricing is a strategy in which prices of goods and services are set at the highest levels during peak demand seasons. Conversely, consumers pay lowest for the services during off-peak. The justification is that higher prices during peak demand seasons causes stability between demand and supply and, thereby, preventing shortages. It balanced the capacity of a good that is priced highly during greatest demand period. The marginal cost of a product remains constant up to the maximum level of production, when it remains vertical. There is an optimum profit when the marginal cost equals the marginal revenue for a product or service. Elasticity of demand for a service or good is lowest when demand is highest (at peak) and the contrary is true. Price, therefore, depends on demand elasticity.

An example of peak load pricing is the case of electricity. During peak, there are uses of power stations that exhibit the lowest cost of operations. Coal-fired stations exhibit low cost of operations and, therefore, most preferable during off-peak demand. Gas and oil-fired stations that have high operations costs are used during peak demand. The marginal cost of electricity production using gas and oil-fired is higher than using coal-fired stations. Peak load pricing principles are developed for the profit-maximizing firm, which is the subject to one or three methods of regulatory constraints (Knieps, 2015). Peak load pricing techniques has a substantial effect on the distribution of price reductions between the peak and off-peak users. Under regulation limiting rate of return on capital investment the price reduction are received mostly by peak-period users. In contrast, when regulation limits profit per unit or returns on cost, there are price reductions for all users.

References

Knieps, G. (2015). Network Economics: Principles - Strategies - Competition Policy. Cham: Springer.