

Essay on strategic pricing and game theory

[Technology](#), [Computer](#)



In this case, it is logical that Ray request for submissions from would be suppliers on their best offers. Additionally, Ray should make it known to all the suppliers that other suppliers have also been requested to submit quotations. In this case, Ray would have elicited competition amongst the suppliers. As such, each would strive to give the best offer that would still allow them to get profits and as such, Ray would end up receiving the lowest offer from each of the would-be suppliers. Conventionally, eliciting competition between suppliers is a sure way to ensure each supply offers the lowest price they can offer without suffering losses. Moreover, when the suppliers have been made aware that their quality is same as that of competitors and hence pricing is a major determinant (Rubinstein, 2011). The situation explained above is reflected below.

In an instance where Ray has knowledge of the suppliers cost, the best offer would be for a lower as compared to the one offered by the manufacturer. In typical markets, manufacturers will always price their products way above the prices that yields profit to them (Klemperer, 2009). As a result, offering a price equivalent to what the manufacturer offers would eliminate the essence of bargaining, and this would amount to a direct purchase. However, offering a lower price will see the manufacturer make a counter-offer for a price lower than their normal price but one that still allows the manufacturer to make profits. Conversely, in an instance where Ray has no idea about market prices, Ray might find himself at the risk of overpricing the offer. While under-pricing will most likely call for a counter-offer from clients, the same cannot be said of over-pricing an offer. These can however be mitigated by requesting quotations before making an offer.

Assuming there are only two computer manufacturers and both make identical have the same constant marginal cost per unit manufactured, Ray will be faced with the challenge of determining which manufacturer to choose. However, breaking the order eliminates the advantage offered by economies of scale (Harsanyi, 2003). As a result, it will only be prudent that Ray seeks out the discount offered by the respective manufacturer for goods purchased in bulk as such, enjoy the economies of scale.

In contrast, take an instance where Ray has only two computer manufacturers to choose from. In this situation, he is aware that despite having constant marginal costs (and no fixed costs), one of the suppliers has a lower cost than the other supplier despite not being sure which one. Competitive procurement would be the best option. However, in this case, Ray would not need to inform the other about his intention to have them compete against each. This way the one with lower costs will be best suited to offer lower cost compared to the one with higher costs. This is reflected in the graph below,

References

- Harsanyi, John (2003). Games with randomly disturbed payoffs: a new rationale for mixed-strategy equilibrium points, *Int. J. Game Theory* 2: 1-23,
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- Rubinstein, A. (2011). "Comments on the interpretation of Game Theory". *Econometrica* 59 (4): 909-924.