Econmics

Family

Companies in the consumer markets are affected by the changes in the domestic and international markets. The economy is a variable that influences the strategic decisions corporations made. Different strategies are implemented based on the economic conditions. For example during recession companies lower their prices in order to entice customers to spend. People are very tight with their money during bad times due to fear of loss of income from events such as massive layoffs which are common corporate tactics in the business world. An economic principle that influences the pricing and production decisions of corporations is the law of supply and demand. The law of supply and demand must be used by corporations as a basis for determining the selling strategy of a firm. This economic principle influences the prices companies charge for their products. The demand for a product can be defined as the amount or quantity of items that are desired by the customers in the marketplace. The supply relation refers to the amounts of goods producers are willing to provide to the marketplace at a specific price. The pricing structure of a business depends on the supply and demand law because this relationship will determine the upwards and downwards trends in the price of a good or service. Imagine a T-shirt company that produces shirts to be sold at a local swap meet. It is very important for this street vendor to control his expenses because his business model depends on the daily weekly cash flow to keep the business going. The T-shirt vendor based on their prediction of the market produces 100 T-shirts to be sold at $15 each. If the company sells out the T-shirts very fast the firm based on the law supply and demand can increase the price and achieve similar results. Another strategy that may be implemented which can optimize the profits of the company better is to increase the production

of T-shirts to sell more shirts at the same price. On the flip side of things if the opposite occurred and the company was not able sell its products within its projected timeline the firm would have to lower its price to liquidate inventory. Corporations that have many products have to utilized the law of supply and demand to make independent analysis of each of the products offered by the company in order to make production plans for each of the products and subsequently determine a price to sell each item. The prices of each item might increase or decrease based on the market behavior guided by the law of supply and demand. Companies can used this economic concept to achieve corporate strategies such as a goal of increasing the market share of a product. To increase the market share of a product the law of supply and demand states that products place at a lower price point will increase the demand for the item. Different products behave differently to price changes. An economic law that can help companies better predict the behavior a product will have to the price change is price elasticity. The price elasticity of demand is the percentage change in quantity divided by the percentage change in price. Price elasticity can be used by companies to determine the optimum price for a product. One particularity about the principle of price elasticity is that market structure in which a product participates influences the price elasticity. Each of the four market structures which are monopoly, oligopoly, monopolistic competition, and perfect competition have a different price elasticity of demand (Varian, 2003). Managers have to be aware of this fact when making plans regarding production quantities and pricing structures. Companies participating in a monopolistic competition structure have a high price of elasticity. Price wars are common in this industry due to the intense competition. For example in

the fast food industry when one firm such as Taco Bell starts a new promotional special other firms in the industry soon follow with an offer of their own. When the price of elasticity is high managers have to research the market well in order to track the pricing strategies of the competition. Oligopolies have a medium price elasticity of demand. Due to this fact it is not convenient for any of the players to drastically reduce prices since everyone in the industry will suffer from such a move. There is no price elasticity of demand under a monopoly market structure because there is only one market participant. The monopolist optimizes its profits when marginal revenues equal marginal costs. References Varian, H. (2003). Intermediate Microeconomics: A Modern Approach (6th ed.). New York: W. W. Norton & Company.