

CH 13 Test Review PRICE**Multiple Choice**

Identify the choice that best completes the statement or answers the question.

- _____ 1. Everything a company owns is its _____.
A. net profit
B. gross profit
C. total assets
D. return on investment
- _____ 2. A pricing strategy that is based on the amount customers are willing to pay for a product is _____.
A. demand-based pricing
B. competition-based pricing
C. cost-based pricing
D. keystone pricing
- _____ 3. A business has assets of \$300,000 and makes a net profit after taxes of \$120,000. What is this company's ROI?
A. 2.5%
B. 25%
C. 4%
D. 40%
- _____ 4. A retailer has ordered 120 ergonomic desk chairs to add to its line of office furniture. The retailer paid \$50 each for the chairs and plans to sell them at \$120 each. What is the break-even point for this product?
A. 33
B. 75
C. 90
D. 192
- _____ 5. The markup method in which management decides on the percent of profit needed for each item, calculates the dollar figure, and adds this to the cost of the item is the _____ method.
A. keystone pricing
B. dollar-markup
C. competition-based pricing
D. percentage-markup
- _____ 6. A novelty store ordered 40 mugs imprinted with various sayings. Each mug cost the store \$2.00, and management wants to make a 50% profit on all sales. Using the percentage-markup method, what is the base price per mug?
A. \$2.50
B. \$3.00
C. \$4.00
D. \$4.50

- _____ 7. An office supply store purchases 100 8-GB USB flash drives for \$3.00 each. Using the keystone pricing method, what will the base price for each flash drive be?
- A. \$4.00
 - B. \$5.00
 - C. \$6.00
 - D. \$8.00
- _____ 8. Which of the following statements about competition-based pricing is true?
- A. The price must be set below the competitor's price.
 - B. It takes into account the cost of producing the product.
 - C. It ensures an excellent profit margin.
 - D. It requires constant monitoring of competitor prices.
- _____ 9. Which of the four Ps is easiest to change after the marketing mix has been determined?
- A. product
 - B. price
 - C. place
 - D. promotion
- _____ 10. Which of the following statements about ROI is true?
- A. Profitable companies generally have a high ROI.
 - B. ROI is determined by dividing gross profit by net profit.
 - C. ROI is expressed as a ratio of investment to profit.
 - D. The less a company reinvests in the business, the higher the ROI will be.
- _____ 11. Which of the following statements about demand-based pricing is true?
- A. It is most effective when demand is low.
 - B. It is a long-term pricing strategy.
 - C. It is based on the cost to produce the product.
 - D. It reflects customer perceptions of the product's value.
- _____ 12. Which of the following generally occurs if a company lowers the price of a product that has an elastic demand?
- A. Demand for the product will fall.
 - B. Consumers gain less satisfaction from the product.
 - C. Consumers tend to buy more of the product.
 - D. Demand for the product will not be affected.
- _____ 13. Which method of markup is used by most retail businesses?
- A. percentage markup
 - B. fixed markup
 - C. keystone pricing
 - D. dollar markup
- _____ 14. How is the base price of a product determined using the keystone pricing method?
- A. A consistent percentage is added to the total cost of the item.
 - B. The total cost of the item is multiplied by two.
 - C. A specific dollar amount is added to the total cost of the item.
 - D. The prices of competing products are averaged.

- _____ 15. Which of the following statements about pricing objectives is true?
- A. They focus mainly on long-term company goals.
 - B. They are revised every 5 to 10 years, depending on company objectives.
 - C. They are defined in a company's business and marketing plans.
 - D. They have no effect on the company's market share.

Matching

Match the following terms and identifying phrases.

- A. base price
- B. elastic demand
- C. fixed expense
- D. gross profit
- E. inelastic demand
- F. marginal utility
- G. markup
- H. net profit
- I. return on investment
- J. variable expense

- _____ 16. Amount of a company's profit before subtracting the costs of doing business.
- _____ 17. Additional satisfaction gained by using one additional unit of the same product.
- _____ 18. General price at which a company expects to sell a product.
- _____ 19. Amount added to the cost of a product to determine the base price.
- _____ 20. Amount that changes in both the cost and the amount of time it must be paid.
- _____ 21. Product demand in which the percent of change in demand is greater than the percent of change in price.
- _____ 22. Measure of profitability based on the amount earned from the investment made in a business.
- _____ 23. Set amount that must be paid on a regular basis.
- _____ 24. Product demand that is not affected by price.
- _____ 25. Amount that is left after all company expenses are subtracted from total revenue.

Completion

Complete each statement.

26. Pricing _____ are goals defined in a company's business and marketing plans for the overall pricing policies of the company.
27. The point at which the supply of a product equals demand for it is _____.
28. Another term for value-based pricing is _____ pricing.

29. The practice of lowering the list price of a product when a customer purchases a higher number of units at the same time is known as _____ pricing.
30. The two major categories of pricing objectives are maximizing profit and maximizing _____.
31. The point at which revenue from sales of a product equals the cost is the product's _____.
32. Demand _____ is the degree to which price changes demand.
33. Rent payments and insurance premiums are examples of _____ expenses because they are the same amount each month or year.
34. Sales commissions and other expenses that may change from month to month based on business activities are considered _____ expenses.
35. In the keystone pricing method, markup on all items is _____ percent.
36. Companies using the _____ pricing method determine a specific dollar amount that must be made, above product costs, for each item sold.
37. A bookstore purchases 20 copies of a new best-selling novel. The cost per book is \$12. If the company decides it needs to make \$11 per book, after costs, the base price per book will be _____.
38. The percentage of total sales in a market held by one business is that business's _____.
39. Any revenue made from sales after a company reaches the break-even point on a product is _____.
40. A patient's heart medication is considered to have a(n) _____ demand because the medicine is necessary and the patient will continue to buy it even if the price goes up.

Short Answer

41. What three things does a correctly set product price achieve?
42. How does demand for a product affect the product's price?
43. Cost has an influence on pricing both for manufacturers and for retailers. How do manufacturers' costs differ from those of retailers?
44. How does the stage in a product's life cycle affect the product's pricing?

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45. Explain the difference in strategy between pricing objectives that maximize sales and those that maximize profits.
46. What is the law of diminishing marginal utility and what effect does it have on demand?
47. What three general levels of quality do customers perceive?
48. Why is strategic pricing considered a “balancing act”?
49. Name three common approaches for determining the markup on a product.
50. Explain why some items can have either an elastic or an inelastic demand.