

**Dr.SNS RAJALAKSHMI COLLEGE OF ARTS AND SCIENCE
(Autonomous)**

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Coimbatore- 49

**DEPARTMENT OF COMMERCE WITH
INFORMATION TECHNOLOGY**

**MANAGERIAL ECONOMICS
Pricing and Output Decision**

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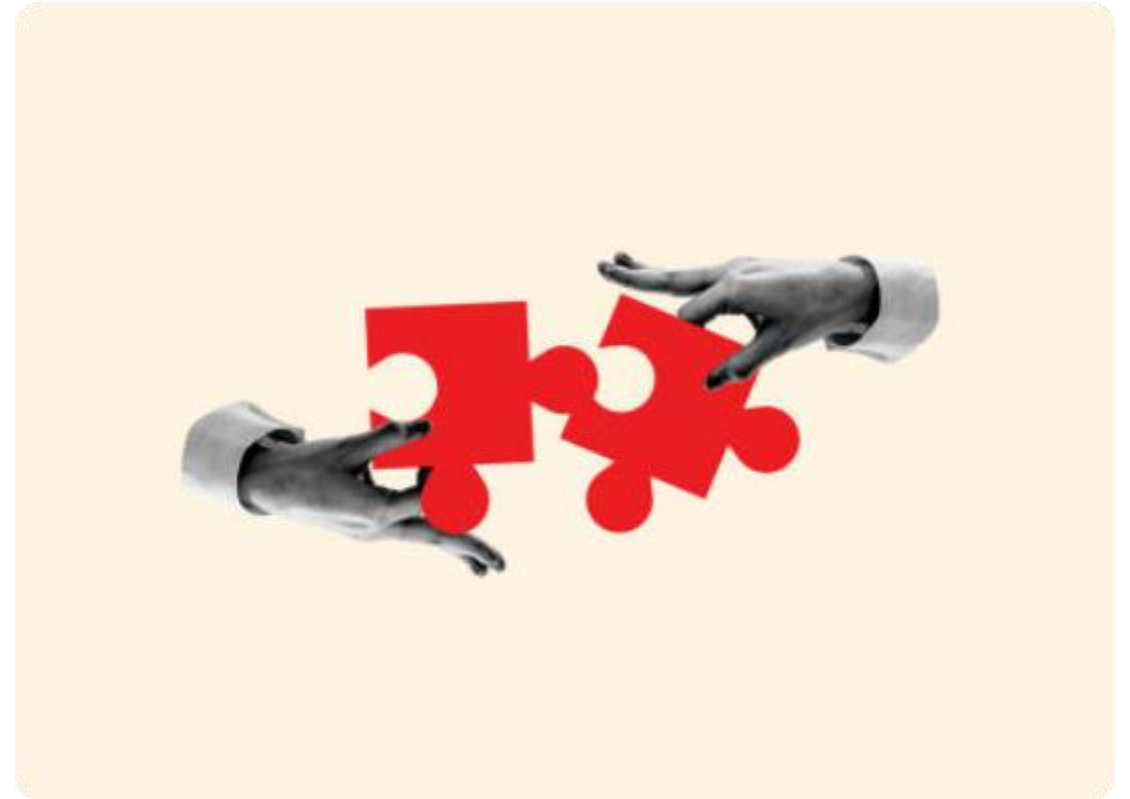
The Foundation of Success

Every business must solve two critical problems to survive and thrive:

Pricing Strategy: What price will the market bear?

Output Optimization: How much should we produce to maximize returns?

Strategic Context: These decisions are governed by the competitive landscape and market structure.



The Golden Rule of Economics

Profit is maximized at the point where Marginal Revenue equals Marginal Cost.

$$MR = MC$$

Marginal Revenue (MR)

The additional income generated by selling one more unit of product.

Marginal Cost (MC)

The additional cost incurred by producing one more unit of product.

The Perfect Competitor



Price Takers

Individual firms have no power to influence market price; they must accept the prevailing rate.



Homogeneity

Products are identical, making consumers indifferent between sellers.



Free Entry

No barriers to entry or exit ensure long-run economic profits return to zero.

The Monopoly

The Single Seller

A monopolist is the market. They face the entire market demand curve and are "Price Makers."

- Significant barriers to entry (patents, resources).
- MR is always less than price.
- Inefficiency occurs as they produce less and charge more than competitive markets.



Monopolistic Competition

The Power of Brand

Firms sell similar but differentiated products (restaurants, retail, cosmetics).

Key Strategy: Non-price competition through branding, quality, and unique features allows for some pricing flexibility.



Oligopoly & Interdependence



Strategic Games

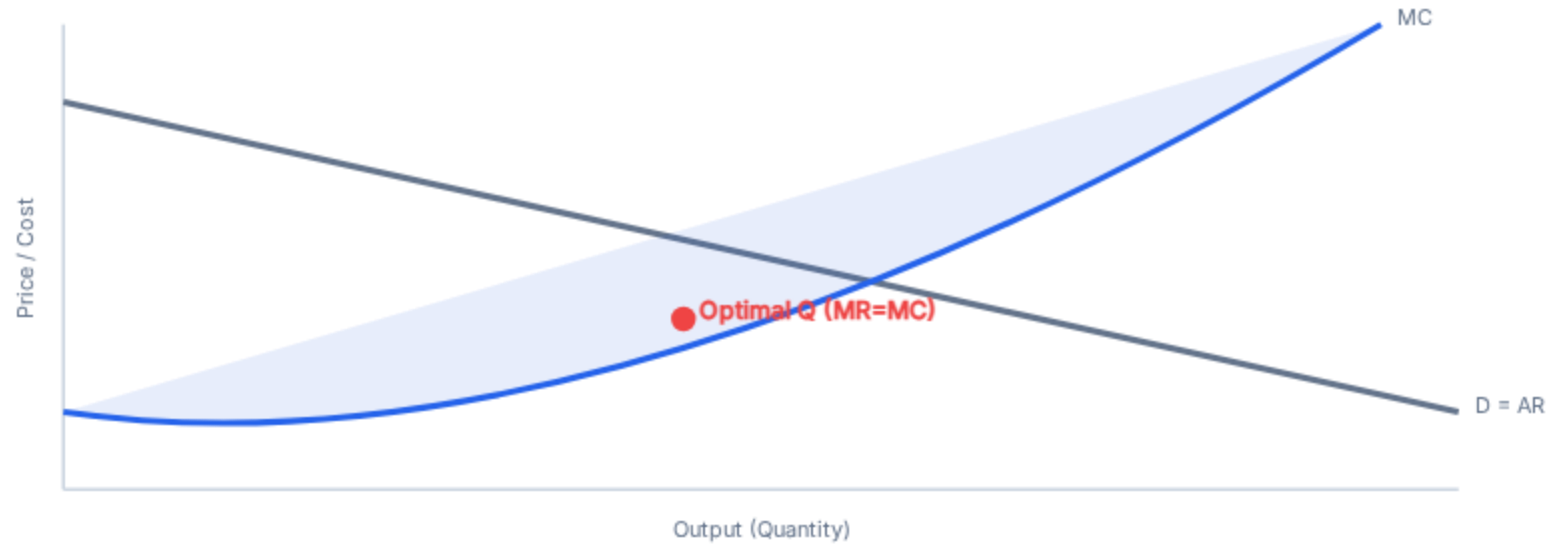
A few large firms dominate the market. Decisions made by one firm directly impact the others.

Kinked Demand: Competitors match price cuts but ignore price hikes.

Collusion: The temptation to form cartels for higher profits.

Game Theory: Pricing is a series of strategic moves.

Visualizing the Equilibrium



The firm should continue producing as long as the revenue from the last unit exceeds its cost.

Common Pricing Strategies

Price Skimming: High initial price to "skim" top-tier customers (new iPhones).

Penetration Pricing: Low price to quickly gain market share.

Value-Based: Price set based on consumer perception rather than cost.



Market Structure Comparison

Market Type	# of Firms	Pricing Power	Optimal Condition
Perfect Competition	Many	None (Price Taker)	$P = MR = MC$
Monopoly	One	Absolute (Price Maker)	$MR = MC (P > MC)$
Oligopoly	Few	High (Interdependent)	Game Strategic
Monopolistic	Many	Limited (Brand)	$MR = MC$