

Assignment 1

Answer the following questions on a separate sheet of paper. Use only one side of the sheet and start a new sheet for each question. Staple your sheets together in the upper left corner.

1. Over the past two years, a restaurant has varied the prices of its entrees substantially through the use of daily and seasonal specials as well as changes in the base pricing structure. The restaurant attempts to track the number of customers by age paying particular attention to whether the customers are between 18 and 55 years of age or older than 55. The average nightly number of customers, by age and average entrée price, is given in the table below.

Price	# of Customers older than 55	# of Customers, 18-55
8.00	165	245
8.50	142	231
9.00	125	220
9.50	113	213
10.00	104	199
10.50	82	189
11.00	66	181
11.50	53	168
12.00	44	165
12.50	21	151
13.00	14	142
13.50	0	134
14.00	0	124
14.50	0	112
15.00	0	101

- a) If entrées cost approximately \$7.00 what should the (single) price of an entrée be? Explain and support your answer.
- b) Should the restaurant set a uniform price, that is, the same price for both those over 55 and those under 55 years of age? Explain, why or why not. If not, what prices should it set?

2.

A firm currently has a markup of 25% (over unit cost) on its product. After hiring a market research firm, it finds that the price elasticity of demand for its product is -4. Should it raise or lower its price? Explain.

- a) The firm is selling at the profit-maximizing price.
- b) The firm should lower its price.
- c) The firm should raise its price.
- d) There is not enough information.

3. A manager of a large sporting goods store in a relatively small metropolitan area is setting pricing on a few different product lines. She places products into several different categories:

- a) Primary Purchase, carried only by this store. These are major items (reasons for going to the store) that, in this area, are carried only by this store (climbing gear, high-end camping and hiking gear, hockey equipment).
- b) Primary Purchase, carried by other stores. Major items also carried by discount stores in the area (fishing and hunting equipment, lower-end bicycles).
- c) Independent Accessories. Small items that cost the manager very little. Sold by cash register but not related to any of the primary purchases.
- d) Add-On Accessories. Small item purchases intended to complement major purchases. These cost the manager very little. They are located adjacent to primary purchases they are intended to complement.

Based on this limited information, which product categories would have relatively high markups and which would have lower markups? Explain.