

3 The role of marketing – Part 2

Name: _____ Class: _____ Date: _____

Vocabulary

Write each word three times.

English	Write it 3 times (English)		
demand	_____	_____	_____
supply	_____	_____	_____
equilibrium price	_____	_____	_____
Price elasticity of demand	_____	_____	_____
price elastic	_____	_____	_____
price inelastic	_____	_____	_____
product life cycle	_____	_____	_____
introduction	_____	_____	_____
growth	_____	_____	_____
maturity	_____	_____	_____
decline	_____	_____	_____
extension strategies	_____	_____	_____
penetration pricing	_____	_____	_____
price skimming	_____	_____	_____

Recall

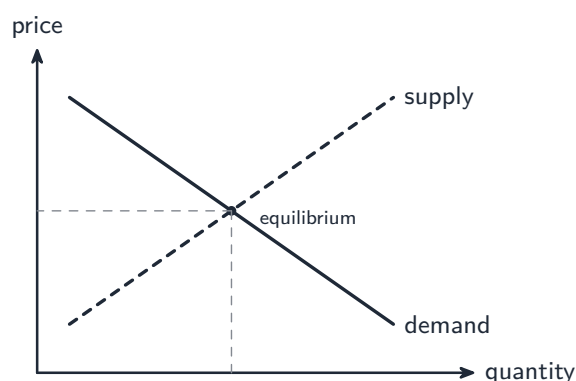
In **Part 1** you met marketing, mass and niche markets, segmentation, and the marketing mix (the 4Ps). Part 2 looks at how price and quantity are set (**demand and supply**), how strongly demand reacts to price (**elasticity**), and how a product's sales change over its life.

New ideas

■ 1 Demand and supply

- **demand** is how much buyers will buy at each price. Usually, when the price **falls**, demand **rises**.
- **supply** is how much sellers will offer at each price. When the price **rises**, supply **rises**.

They meet at the **equilibrium price** – the market price where the amount demanded equals the amount supplied.

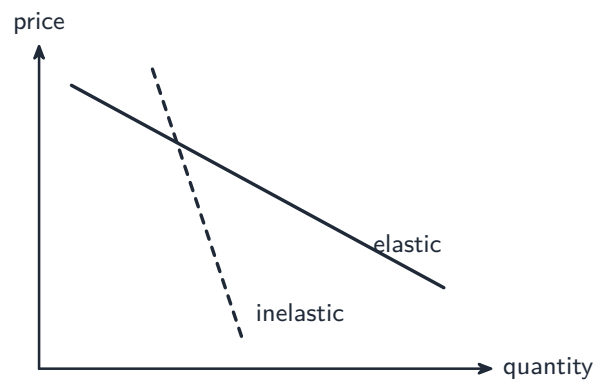


Micro-check. What usually happens to demand when the price falls? [1]

■ 2 Price elasticity of demand

Price elasticity of demand (PED) measures how strongly demand reacts to a change in price:

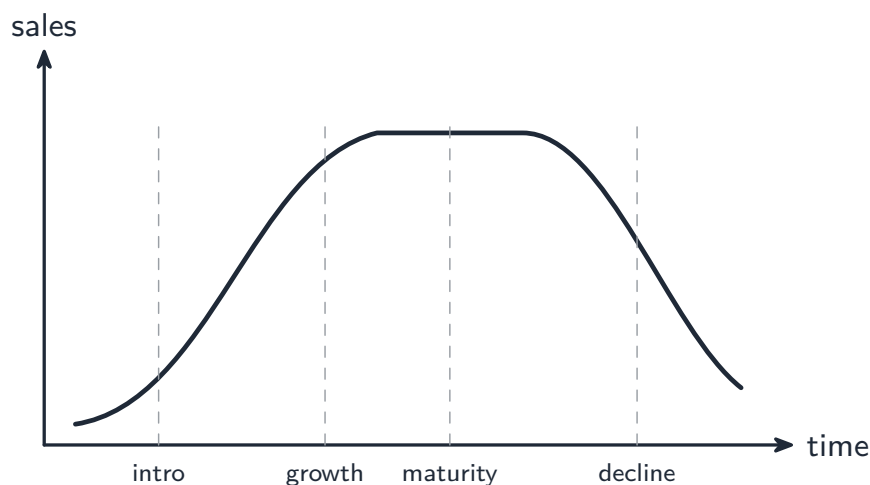
- demand is **price elastic** when a small price change causes a **big** change in quantity – so cutting the price can raise total revenue;
- demand is **price inelastic** when demand changes only a **little** – so raising the price can raise total revenue.



Micro-check. If a price cut raises total revenue, is demand elastic or inelastic? [1]

■ 3 The product life cycle

The **product life cycle** shows a product's sales over time, in four stages: **introduction**, **growth**, **maturity** and **decline**.



To keep sales up in maturity, firms use **extension strategies** (new packaging, new uses). At launch a firm may use **penetration pricing** (a low price to win share) or **price skimming** (a high price first, then lower it).

Micro-check. Name the **first** stage of the product life cycle. [1]

Watch out: if demand is *elastic* (price-sensitive), *cutting* the price raises revenue; if *inelastic* (insensitive), *raising* it raises revenue. Penetration pricing = a *low* launch

price; price skimming = a *high* launch price, lowered later.

Practice

3.1 State what is meant by the **equilibrium price**. [2]

3.2 State what happens to **supply** when the price rises. [1]

3.3 A firm raises its price and total revenue **rises**. State whether demand is price **elastic** or **inelastic**. [1]

3.4 Put the four product life-cycle stages in order. [2]

3.5 State one difference between **penetration pricing** and **price skimming**. [2]

3.6 A new phone is sold at a high price at launch, then the price is lowered months later. Name this pricing strategy. [1]

3.7 Challenge. A bus company finds the demand for its tickets is price *inelastic*. Recommend whether it should raise or lower fares to increase total revenue, and explain. [2]
