Answer on Question #54534, Economics / Microeconomics

What is the price mechanism ? Explain:

(1) Info Data

(2) work with incentive given

(3) Working Capital (money)

Explanation:

Price is the main and universal form of interaction commodity-producer and the market. It makes possible (or impossible) the sale of goods, and consequently, the very economic existence of the manufacturer. Possibilities of implementation of almost all economic interests ultimately determined the price level at which the goods bought and sold. The correct choice of the price is the key to successful implementation of tactical and strategic planning, good financial condition and financial stability of the enterprise (firm).

There are two main points of view of the theory of prices. According to supporters of a first theory, the price of the goods expresses its value. Supporters of the other theory believe that, the price of a commodity is the amount of money for which the seller agrees to sell and the buyer is willing to pay for certain items of utility.

In world practice, it has accumulated a great experience in development and use of the market pricing mechanism, which is influenced by the following conditions:

- number of subjects of the market, buyers and sellers (more than them, the less price changes);
- the independence of market participants (the fewer, the more opportunities both sellers and buyers to influence the level of prices and vice versa);
- the degree of individualization of goods, works and services (the more varied their range, the greater the likelihood that some of their species can withstand the stress state of the overall market);
- external constraints (the level of prices on the market is influenced by such factors as demand, supply, price controls, and others.).

The price mechanism is the formation and the change in market prices under the influence of colliding interests of buyers and sellers who make decisions without coercion from outside.

Prices are for all buyers and sellers main source of information about the situation on the market, the ratio of supply of goods and the demand for them.

So, if the prices:

- increased therefore, goods on the market receives less than buyers are willing to buy them at this price level;

- falling, therefore, goods on the market comes more than buyers are willing to buy them at this price level;
- remained almost unchanged, therefore, comes to the market about as much goods as buyers are willing to buy them at this price level.

Since the level of prices directly depends on the value of the proceeds vendors (in the form of income) and expense of buyers, then the prices are indicators for all market participants. Their analysis allows manufacturers and retailers to determine whether or not to produce a particular product, and sell them as well as profitable for and how doing it at the current level of prices. Buyer's rates provide information to make an informed decision about purchasing a product.

Demand is established at a certain period the dependence of the demand for the product market on the prices at which goods may be offered for sale. The level of demand is the amount of a certain type of goods (in volume terms) that buyers are willing (willing and able) to buy over a certain period of time (month, year) at a certain level of its price.

This pattern plays a significant role in the life of the market, it is called the law of supply, or the first law of economics, according to which the rise in prices generally leads to a decrease of demand and reduction to its increase. The demand for any commodity can be represented by a scale that shows how much the goods will be bought at different prices.

Naturally, any price set by the company, one way or another affect the level of demand for the product. After a certain level of saturation, the satisfaction derived from the product or service begins to decline. This is called the effect of decreasing marginal utility, which describes a situation where the last unit brings the goods meet the needs of smaller than its predecessor, and etc. Descending marginal utility helps explain why low rates are needed to stimulate demand. Goods sold at high prices, are not usually bought for the future ("reserve"). With a low and affordable price the consumer gets a little more explanation than it needs.

In determining the relationship between price and demand must be considered that the demand in addition to the price can have a major impact, and other factors:

- availability of substitute products;
- environmental conditions (cold summer);
- reassessment of useful things (information on the use of this product is harmful or, conversely, beneficial to health);
- changes in income;
- fluctuations in the price of substitute products;
- price changes and the availability of complementary products (some products complement the others: shoes and care for her);
- change of style, habits, tastes; etc.

All these factors affect the demand curve at current prices if demand increases, the curve shifts to the right, if the demand will decrease the curve shift to the left.

By studying the law of demand, it is necessary to remember two basic conclusions:

An increase in the price does not always guarantee an increase in sales revenue, and the reduction does not always lead to its reduction;

In determining the price of the goods should be sure to try to forecast revenues based on price elasticity of demand for this product.

In addition to the price of goods on the demand influenced by such factors as:

- prices of other goods;
- the level of customer's income.

As already mentioned, according to the law of supply consumers at lower prices will be buying more products. However, the degree of response to changes in rates may be significantly different for different products. Furthermore, the change rates in different within the same product and can usually be perceived by consumers in various ways.

Economists define the degree of sensitivity of consumers to changes in product prices as the price elasticity. If consumers are relatively sensitive to changes in the price of any product (small price changes lead to significant changes in the amount of purchase product), the demand is called elastic. If the customer is absent from the relative sensitivity to price changes (substantial change in price leads to only a small change in the number of purchases), the demand for such products is called inelastic.

The external manifestation of the internal content of the price is its function. They reflect the essence of the price, its role in the economy, among other economic categories, and the relationship with these categories. Classify the five main functions of prices:

Accounting and measurement function reflects the ability to use price to measure the results and the cost accounting of various economic processes. For example, the price makes it possible to: 1) determine the cost of various resources (human and material) for the production of goods and profit margins; 2) to compare the various economic processes; 3) to organize the exchange of goods, defining the amount of money that the buyer has to pay and the seller to receive for the goods.

Stimulating function of the price shown in the order of market participants. By entering into a transaction (sale, supply, services and similar operations), its members strive to achieve the best outcome for themselves. The stimulating effect on the development of the market after prices have a level of profitability of the seller, the level of expenditure on the production of goods, customs duties, the amount of taxes and fees on the one hand and, on the other hand, the amount of indirect taxes and methods of pricing vendor, such as premiums and discounts.

The distribution function of prices is related to the possibility of price deviation from the real value of the set under the influence of market factors. The Redistributive function of prices means that the price is carried out by means of a redistribution of value added between industries, sectors of the national economy, the country's regions, social groups, in other words, takes control of industry revenues, business entities population.

Balancing (regulatory) function or the function of balancing supply and demand reflected in the fact that through the prices the link between production and consumption, supply and demand is made.

The function of price as a criterion of rational allocation of production (capital) is manifested in the fact that to obtain higher profits carried the flow of capital both within individual sectors of the economy and from one industry to another, where the rate of return is higher. At first glance, it may seem a kind of similarity with the distribution function of the prices, but we are talking about different things. If the price of the distribution function is the subject of more in the macroeconomic aspect of the decisive role of the state, there is a subject of study within the framework of microeconomics.

On the basis of the development and application of appropriate methods, adequate market relations uniform pricing principles are implemented, standing the basic provisions that are typical for the whole system of prices and the underlying.

Among the most important principles of pricing are the following:

1. The principle of reasonableness, which is the need for analysis and consideration in the pricing of market factors and objective economic laws of market economy (the law of value, the law of supply and demand).

2. The principle of unity provides a uniform method of calculating the price for a certain type of product corresponding to the conditions of sale.

3. The principle focus is to identify clearly the priority of economic and social problems and challenges that must be addressed with the help of the price.

4. The principle of control aims at checking the correct application of the legislation of general rules for all vendors and pricing is implemented in particular in the state regulation of prices.

5. The principle of continuity of the process of price formation is manifested in constant need of formation of commodity prices in the circuit of economic processes, for example, take place on a "goods-money-goods".

Thus, the strategy and tactics of pricing suggest practical steps for the implementation of the tasks. Methodology, methods, techniques and principles systematize scientific and theoretical basis of these actions. Together they form a coherent system of pricing mechanism.