

## Marketing I

### Review: Economics 101

Name: \_\_\_\_\_

1. A good is considered “normal” if people tend to buy more of it when it is for sale at a lower price. Would you consider soft-drinks like Coke & Pepsi “normal” good? Please be sure to explain your answer.

2. Graphs, in order to be meaningful, need to be carefully constructed so that we can clearly see what is being illustrated. When we looked at demand and supply curves, what was the unit being measured on the Y-axis (vertical) and what was being measured on the X-axis (horizontal):

Y-Axis

X-Axis

3. How does our model of supply and demand predict sellers will act when prices are higher? Please explain your answer – one or 2 words is not enough to show we understand economics.

4. Please explain what determines the “equilibrium” price and comment on how you see this in the real world (Example: We see many products at similar prices, but we also see that different sellers have their own price strategy. What do you think causes this variation when our economic model predicts a single price point)

5. If people want a product and are willing to buy it at lower prices, which we called “low value uses, what are they likely to do when the prices are higher than the “added value” they perceive?
  
6. Our models of supply and demand make assumptions: (1). Everyone knows all of their purchase options and all pricing, (2). Seller can enter the market whenever they choose and leave the market at any time. (3). No one seller has a monopoly and controls the price and supply. (4) No group of sellers can act together to control price and supply. Does this “perfect” competition exist? Please explain why or why not.
  
7. We have already discussed how some products are not “normal”. For example, many people choose to buy higher-priced premium gasoline even when their cars are designed to run on lower-priced regular. How would you explain the fact that some products have higher demand when prices are higher?
  
8. When making marketing decisions, we need to use available information to help us make choices. Please explain how you would consider supply and demand if you had a new product to sell, there was nothing else available that fully satisfied your customer’s needs, and you were the only business selling this product.

9. If you were a marketing a product like soft drinks which are available from many different sellers at different prices, how would you recommend setting a price based on what you know of our model of supply & demand? Please be sure to explain your answer.
10. Please think about your experiences as a consumer or what you have seen when looking at different prices from different sellers. Please describe why people may choose to buy in the situations below:
- A. A price is a higher, like at a baseball or football game or at an event or concert. Why do some people choose to pay prices they know are higher than if they visited other sellers?
- B. A refinery has to make repairs on their plant that produces gasoline for Wisconsin. While other refineries can ship gas into our market, the costs are higher. What will motorists see at the gas price as supplies become limited or the cost of transporting gas in Wisconsin goes up? Please be sure to explain your answer.
- C. Based on what you now know about normal products, supply and demand, and equilibrium price, please explain why you believe there is a Citizen Utility Board that works with WE Energy to monitor and determine reasonable prices for electricity and natural gas. Please be sure to explain your answer (NOTE: *WE Energy is the only choice we have to use natural gas for cooking and heating. They are the sole provider of electricity in this area. Economists call this a “natural monopoly”*)