Price Calculations: Marginal Analysis

Marginal analysis is based on the assumption that as the product's price alters, so will its level of demand (sales).

Therefore, this approach looks for the maximum profit point, when considering the firm's cost structure and the likely sales at different price points (which is essentially the product's demand curve).

Determine the best price point (that is, what is the best price to charge to maximize profits):

If the price is set at:	Then unit sales are likely to be:	Total Revenue	Allocated Fixed Costs	Variable Cost/Unit	Total Production Cost	Gross Profit
$60	500		$10,000	$10		
$50	1,000		$10,000	$10		
$40	1,500		$10,000	$10		
$30	2.000		$10,000	$10		
$20	2,500		$10,000	$10		

Student Discussion Questions

1. Start by completing the above table.
2. Why is this pricing approach likely to be more realistic for a marketer? Why?
3. Does this approach take into account competitor pricing?

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