***Syllabus Reference 2.2: Connecting Elasticity to Pricing policy of firms***

***Webnote 127***

RTE –news agency

Valentine card sellers warned on prices  
  
February 02, 2006 07:36

Sellers of Valentine cards have to display prices or face hefty penalties, according to the Office of Consumer Affairs. Shops are being warned today that they can be fined up to €3,000 if prices are not displayed.

In a survey of 123 shops that sell cards, the office found that 25% of the outlets were not displaying prices. Over 1,000 cards were checked in the course of the survey.

The Office of Consumer Affairs says the prices of greeting cards should be shown to comply with price display legislation. Most cards are priced by reference to a code number with a chart adjacent to card stands indicating the prices that equate to each code number.

The Office decided to target the greeting card sector when it became aware, from monthly spot checks, that significant number of retailers, particularly; newsagents and symbol group stores were not displaying card prices.

The Director of Consumer Affairs, Carmel Foley, says the survey had brought compliance levels up from 75% to 95% and had raised retailers' awareness of the need to provide unambiguous price information to customers.

She said that over the last few years card prices have increased, and that because prices can vary from shop to shop customers should be able to buy where they clearly see the best value.

**Task 1: why do shops selling Valentine cards not want to display the prices?**

**Task 2: Design the demand function for market demand for Valentine cards**

**Task 3: Is the demand for Valentine cards elastic or inelastic?**

**Shift coloured boxes for the answers.**

Task 1: Answer

When customers are not properly informed in relation to price and the customer has a high need for the good (inelastic) then consumers are likely to pay higher prices due to seasonal time pressure

**Task 1: Answer**

Qd Valentine cards function of: ( Price of Valentine cards , price of substitutes, taste/fashion, advertising, culture, Other?)

**Task 2: Answer**

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**Conclusion:**

Regulator needs to enforce the price display controls in order to allow the consumer to compare prices and make the best purchase maximizing consumer surplus. Regulation of firms is essential.

**Conclusion:**

Regulator introduced price displaying to make the market more transparent and to help consiumers find the best price. Market should be more elastic as a result.

**Inelastic**

**The market may well be inelastic. This is what motivates the regulator to take action**

1. **No prices displayed. This denies the consumer essential information before making the decision to purchase. Therfore the consumer may well be influenced by the following:**

**Essentially by not displaying the prices the shopowner has removed or greatly reduced the price as a factor in making the purchase. Price no longer has a prominent role in the demand function and other factors have a greater influence for some consumers.**

* + **% of income spent on the good is low and therefore the consumer is not influenced by the price.**
  + **consumer under time pressure “Must buy” factor!**

**Elastic**

**Market has the ingredients of an elastic market but the government/regulator recognizes the opportunity for firms to take advantage of consumers by not displaying price thereby putting the consumer under pressure when paying for the product.**

**The market should be elastic because:**

1. **Substitutes:**

**Many alternatives available for the consumer. The consumer can but a substitute card in many other outlets or even buy adifferent alternative product e.g flower or chocolates. There are many locations / outlets available to the consumer so if he/she does not like the price in one shop then the consumer can go elsewhere.**

1. **Competition:**

**This should make price lower. Consumer if he/she is informed about price may well not buy and go to next location because the prices displayed are considered too high.**

**Task 3: Answer**