

# Understanding Cost and Price



## Objective

In this lesson, you will

## Cost



**Cost** is the total \_\_\_\_\_ that a manufacturer \_\_\_\_\_ for goods or services.

Cost includes resources such as money, \_\_\_\_\_, and \_\_\_\_\_.

Factors Affecting Cost	Definition
	The value of a product given up to produce or obtain another product. It includes the other options that the opportunity could be spent on.
<i>cost of materials</i>	The value of all materials needed to create the good or provide the service.
	Past costs that can't be recovered.
	Costs that are not affected by the level of production. Employee wages are an example.
<i>marginal cost</i>	Change in total cost that arises when the quantity produced changes by one unit. It helps manufacturers decide if making items in bulk is cheaper.

**Example:** Crystal is learning to bake cupcakes. Her sister Carol always helps her. So Crystal gives her \$5 every time they bake together. Finally, she is confident enough in her cupcake-making skills to bake some as a surprise for her mother. She even considers spending \$25 extra to bake another batch of cupcakes for her aunt. In fact, she has given up an evening out with her friends to make the cupcakes. Fill in this table to find the cost of Crystal's cupcakes.

Factors Affecting Cost	Definition
<i>opportunity cost</i>	
	<i>money spent on ingredients such as flour, eggs, milk, and butter</i>
	<i>cost of every cake-making session in the past when she was learning how to bake</i>
<i>fixed cost</i>	<i>the \$5 she gives her sister whenever they bake together, even if the cupcakes don't turn out very well</i>
<i>marginal cost</i>	

# Price



**Price** is the amount of \_\_\_\_\_ you need in order to \_\_\_\_\_ a good or service.

While the manufacturer determines the \_\_\_\_\_ of a product, buyers and sellers determine its \_\_\_\_\_.

A \_\_\_\_\_ buyer \_\_\_\_\_ seller gives up money to get a good or service, and a \_\_\_\_\_ buyer \_\_\_\_\_ seller gives up a good or service to get money. This exchange is called the \_\_\_\_\_ of goods.

Factors Affecting Price	Explanation
demand	The _____ buyers' _____ sellers' willingness to _____ buy _____ sell a particular good or service at a given price.
supply	The _____ buyers' _____ sellers' willingness to _____ buy _____ sell a particular good or service at a given price.

## When Supply Exceeds Demand

Sellers lose when there is a surplus of a product.

Supply > Demand



## When Demand Exceeds Supply

Sellers benefit from the scarcity of a product.

Demand > Supply



# Markup

Sellers buy items from manufacturers and need a \_\_\_\_\_ whenever they sell a product.

They \_\_\_\_\_ can \_\_\_\_\_ cannot allow the cost price to equal the selling price. So, they \_\_\_\_\_ an extra amount, called a *markup*, to the cost price to arrive at the selling price. Markup is a \_\_\_\_\_ of the original cost.

- Step 1: Calculate the markup value using this formula.

$$\text{markup} = \text{original cost} \times \text{percentage markup}$$

- Step 2: \_\_\_\_\_ the markup value to the original cost to get the selling price using this formula.

$$\text{selling price} = \text{original cost} + \text{markup}$$

**Example:** Let's say the seller bought a basketball from the manufacturer for \$30 and wants to mark up the cost by 10 percent.

- Step 1: Substitute the values in the first formula to calculate the markup value.

$$\text{markup} = 30 \times 0.10 = \$\underline{\hspace{1cm}}$$

- Step 2: Substitute values in the second formula to calculate the selling price.

$$\text{selling price} = 30 + \underline{\hspace{1cm}} = \$\underline{\hspace{1cm}}$$

## When Supply Exceeds Demand

When fewer people want to buy basketballs, the sellers decrease the price by reducing the markup. They bring down the markup from 10 percent to 5 percent.

$$\text{markup} = 30 \times 0.05 = \$ \underline{\hspace{2cm}}$$

$$\text{selling price} = 30 + \underline{\hspace{2cm}} = \$ \underline{\hspace{2cm}}$$

Reducing the markup helps the sellers                      more customers and make a decent profit.

## When Demand Exceeds Supply

When many people want to buy tickets, the sellers increase the price by increasing the markup. They increase the markup from 10 percent to 15 percent.

$$\text{markup} = 30 \times 0.15 = \$ \underline{\hspace{2cm}}$$

$$\text{selling price} = 30 + \underline{\hspace{2cm}} = \$ \underline{\hspace{2cm}}$$

Increasing the markup value helps the sellers to                      their customers while making more profit.

## Bulk Items

Sellers like to sell items in                      because they know for sure that their items are selling. For that reason, they are willing to                      the per-unit price of an item. Buying items in bulk saves money.

$$\text{unit price} = \underline{\hspace{2cm}} \text{ price} \div \text{number of } \underline{\hspace{2cm}} \text{ per package}$$

## Summary

Why do sellers typically reduce the prices of cold weather apparel at the end of winter?