The Basics of Retailing
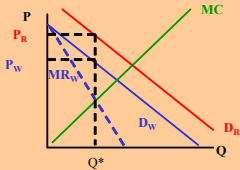

$18

Suppose the wholesaler sets a wholesale price of $18. The good must still be retailed.

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Retailing Basics

The Basics of Retailing

MC=18 + MSC

$18

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Retailing Basics

The Basics of Retailing

MC=18 + MSC

AC = $18 +ASC

$18

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Retailing Basics

The Basics of Retailing

MC=18 + MSC

AC = $18 +ASC

$25

$18

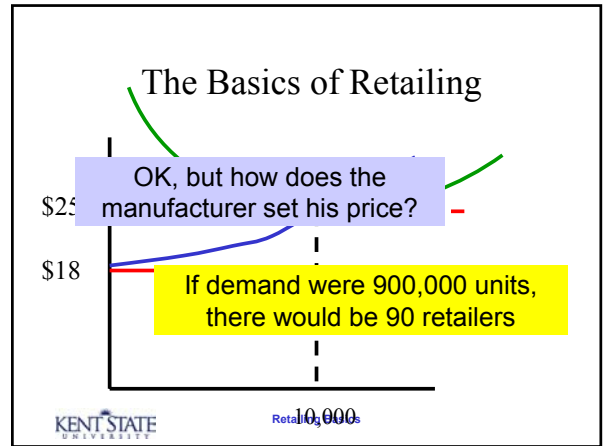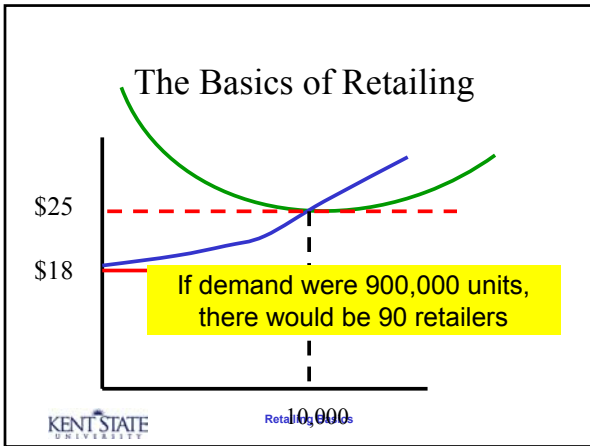KENT STATE UNIVERSITY

Retailing Basics

The Basics of Retailing

MC=18 + MSC

AC = $18 +ASC

$25

$18

Retail competition drives the retailing cost to its minimum, say $7 so the retail price is $25

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Retailing Basics

The Basics of Retailing

$25
$18

If demand were 900,000 units, there would be 90 retailers

10,000
Retailing Basics

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The Basics of Retailing

OK, but how does the manufacturer set his price?

$25
$18

If demand were 900,000 units, there would be 90 retailers

10,000
Retailing Basics

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The Inverse Demand Function

$$P_R = R(Q)$$

$$P_W = R(Q) - 7$$

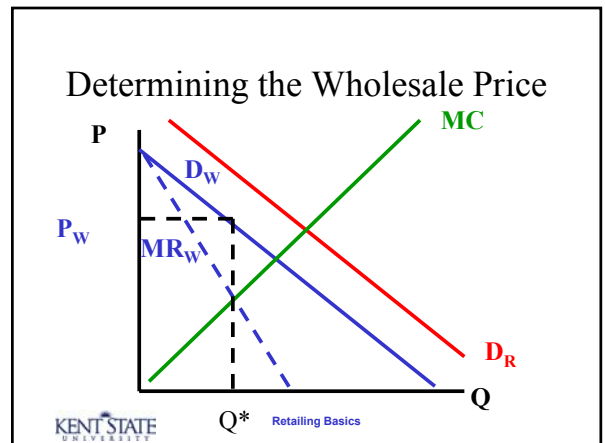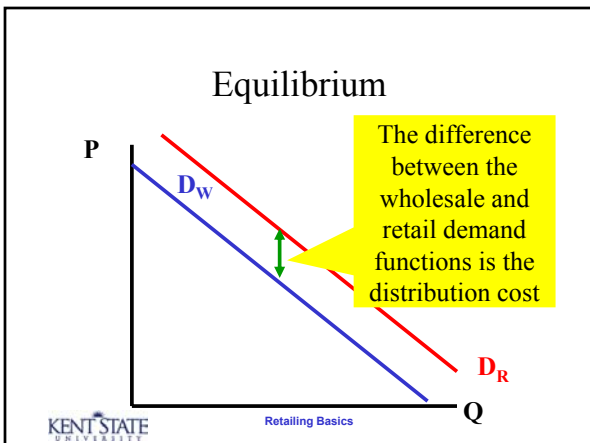KENT STATE UNIVERSITY

Retailing Basics
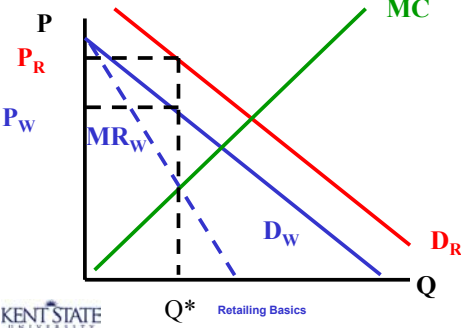
The Inverse Demand Function

$$P_R = R(Q)$$
$$P_W = R(Q) - 7$$

- If the retailer's function is solely distribution, the manufacturer wants the gap between P_R and P_W as small as possible

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Retailing Basics

Equilibrium

P

D_W

The difference between the wholesale and retail demand functions is the distribution cost

D_R

Q

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Retailing Basics

Determining the Wholesale Price

P

MC

D_W

P_W

MR_W

D_R

Q

Q^*

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Retailing Basics

Determining the Retail Price

End