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RESIDUAL PRICE ELASTICITY

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ABSTRACT

It isa tough task to set the right price for a product or service. Elasticity can be described as the degree of impact of change in the price of a firm on the demand of the product and on the price of competitor's product? The concept of residual price elasticity introduces competitive dynamics in the pricing process. It incorporates competitor reactions and cross elasticity. This, in turn, helps explain why prices in daily life are rarely set at the optimal level suggested by a simpler view of elasticity. Marketers consciously or unconsciously factor competitive dynamics into their pricing decisions. It's a combination of 3 Factors like Own Price Elasticity, Competitor Reaction Elasticity, and Cross Elasticity. Many a time we discuss the elasticity, taking other factors as constant, which is not practically applicable in real life situation.From the example, it is evident that competitor reactions and cross elasticity are expected to reduce the firm's initially projectedsales increase.

KEYWORDS: *Own Price Elasticity, Competitor Reaction Elasticity, Cross Elasticity, Residual Price Elasticity, Demand*