

Economics 314
Daily Question #23

Spring 2013
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In the “predetermined-price model,” we assume that the firm sets its prices for two periods at a time, but that it can set different prices for each of the two periods. In the “fixed-price model,” firms must set the same price for both periods.

1. What kind of costs of price adjustment would lead to price setting of the kind in the predetermined-price model?
2. What kind of costs of adjustment would support the fixed-price model?