Economics 314 — Spring 2014
Daily Question #23 — April 10

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? (Negotiation costs, decision-making costs, research and information costs, physical menu costs, customer-reaction costs, etc.)

2. What kind of costs of adjustment would tend to lead to the fixed-price model?