The Tune-Up Rivalry

How competition, posted prices, and marketing shape a local market

E.C.3.3 "Explain ways that firms engage in competition and examine the role of firms in setting prices in a market economy, including administered price theory and the impact of marketing."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline two ways the shops compete, circle details about how a shop sets or changes its posted price, and write 1 beside a marketing action and 2 beside its possible effect on demand.

Two Shops, One Street

1. On one street, two bike shops, Cedar Cycles and Wheelhouse, offer basic tune-ups. Both need mechanics, tools, and spare parts, but riders also care about wait times. Cedar promises next-day service, while Wheelhouse offers a free safety check with each tune-up. These are ways to compete besides cutting prices. If Cedar charges $75 and Wheelhouse charges $70, some riders may choose the lower price, while others may pay more for speed. Neither shop can force riders to buy. Customers can compare offers or postpone a tune-up, so each shop must consider its rival and its customers.

2. Imagine Cedar's labor and supply costs rise. Its owner may set a new tune-up price using expected costs plus a planned markup for overhead and profit. Under administered price theory, firms often set posted prices this way rather than change them after every sale. An administered price is not ordered by the government, and posting it does not guarantee a sale. Cedar might keep its $75 price for a while. If it raises that price too far above Wheelhouse's offer, riders may switch shops. Cedar must weigh its costs against demand and its competitor's price.

3. Wheelhouse launches an online ad showing its free safety check and quotes from satisfied riders. The ad is marketing: it tells potential customers why they might value this shop's service. If more riders want Wheelhouse tune-ups, the shop may be able to keep its $70 price even if Cedar runs a discount, or it might test a higher posted price. But ads cost money, and riders may ignore claims they do not trust. Cedar could respond with a coupon, shorter waits, or clearer information about its mechanics. Marketing can change demand, but shoppers' choices still limit what either firm can charge.

2 ANSWER WITH EVIDENCE

Use the passage

1. How do Cedar and Wheelhouse compete besides charging different prices, and why might those differences matter to riders?

2. How might Cedar set a new posted price if its costs rise? Explain why that price would not guarantee sales.

3. Why must Cedar consider Wheelhouse's $70 price before raising its own price?

4. How could Wheelhouse's ad affect the price it can charge, and what limits that effect?

3 YOUR TURN

Your own words

Invent two competing lunch trucks. In four or five sentences, explain one way they compete besides price, how one sets a posted price using costs and a planned markup, and how marketing could affect demand without letting either truck charge anything it wants.

ANSWER KEY

The Tune-Up Rivalry

HIGH SCHOOL · E.C.3.3

PART 1 · READ AND MARK

Underline two ways the shops compete, circle details about how a shop sets or changes its posted price, and write 1 beside a marketing action and 2 beside its possible effect on demand. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How do Cedar and Wheelhouse compete besides charging different prices, and why might those differences matter to riders?	**Cedar offers next-day service, which appeals to riders who want a short wait. Wheelhouse includes a free safety check, which may appeal to riders who value that service.**
2	How might Cedar set a new posted price if its costs rise? Explain why that price would not guarantee sales.	**Cedar may use expected costs plus a planned markup for overhead and profit. Riders can choose Wheelhouse or postpone a tune-up instead of paying Cedar's price.**
3	Why must Cedar consider Wheelhouse's $70 price before raising its own price?	**If Cedar's price rises too far above Wheelhouse's, riders may switch shops.**
4	How could Wheelhouse's ad affect the price it can charge, and what limits that effect?	**The ad could attract more riders and help Wheelhouse keep its price or test a higher one. Ad costs, riders' trust, and their ability to choose Cedar limit the effect.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

Harbor Wraps and Green Bowl serve lunch outside the same office building. Harbor Wraps competes by offering pickup orders that shorten customers' waits. Green Bowl sets a posted bowl price by estimating ingredient and labor costs, then adding a planned markup to cover overhead and profit. A Green Bowl flyer might attract more customers and support its price, but customers could still switch to Harbor Wraps if the price rises too much.

Accept other passage-based explanations of how service, rival prices, and marketing affect customer choices. For the open task, look for a plausible nonprice strategy, cost-based posted pricing with a markup, and a limit on the effect of marketing.