Cost Analysis and Pricing Policy

Course Description

This course prepares students to address strategic and tactical pricing issues and to identify profit-boosting changes in pricing practices across a range of professional contexts – as management consultants, product managers, entrepreneurs, business unit managers, and M&A advisors. Pricing presents managers with one of their most powerful levers for maximizing profits and shareholder value. It yet remains a challenge for several managers to grasp a clear understanding of how to improve on historical pricing practices within their companies and industries and how to apply such knowledge to new product settings. The concepts and tools of cost accounting serve as a natural response to managerial decision making at all levels of strategic planning and execution. The course familiarises students with the essential concepts and procedures pertaining to the development and functioning of cost accounting systems relevant to managerial decisions, control and performance reporting. Particular emphasis is given on cost issues and pricing policies in liberalized markets and on regulated markets. To this end, the economics of regulation and market liberalization are analyzed by providing evidence in specific sectors in the economies of where the process of market liberalization and regulation has taken place successfully.

Course objectives

- To understand the process of the management control system.
- To acquire familiarity with the essential concepts of cost accounting.
- To familiarize students with the concept of cost and pricing strategies in industries with Significant Market Power (SMP).
- To provide students with the necessary tools so that they will be able to apply them in practice.
- To analyze the behavior, strategy and goals of companies in a non-competitive environment
- To provide case studies that will support the theoretical analysis and enhance the intuition and conception of students on cost and pricing issues.
Textbook and Reading

PART I – Cost Analysis

Recommended reading:


Additional references will be handed during lectures.

PART II – Pricing Policy

Recommended reading:


Selected list of papers will be handed during lectures.

Grading

a) Students must complete two case studies that deal with cost and pricing issues respectively and present them in class. Each case study will have a total 20% weight on the final mark.

b) Final exam 60% weight on the final mark.
Course Outline

Cost analysis

Week 1: Introduction to managerial and cost accounting.

Week 2: Cost measurement and cost control, Cost-volume-profit analysis.

Week 3: Job costing. Activity-based costing and activity based management.


Week 5: Inventory costing, management and capacity analysis. Cost information for decision making and Relevant information. Cost management.


Pricing policy

Week 7: Natural Monopolies, Market Failure, Regulatory objectives, Regulatory process, Regulatory intervention, Regulatory capture, Regulatory authorities.

Week 8: Regulatory Tools, Rate of return regulation, Incentive regulation, Yardstick competition, Price Cap Regulation.

Week 9: Competitive advantage and transfer pricing (Guest speaker).

Week 10: Limit pricing, Predatory pricing, Excessive Pricing, Price and Margin Squeeze.

Week 11: Pricing of a natural monopoly in practice (Energy and Telecommunications sectors)

Week 12: Presentation of a pricing case study. Final overview.