

PRICE CATEGORIES AND PRICE STRUCTURE

VĂDUVA CECILIA ELENA

ASSOCIATE PROFESSOR,

UNIVERSITY ”CONSTANTIN BRÂNCUȘI” OF TG- JIU

e-mail:vaduva.ceciliaelena@gmail.com

Abstract:

Defining the pricing mechanism aims, primarily, the price system that works through the interconditionality with other systems of the national economy and, secondly, legalities of the formation process of prices which continuously act as a specific part within the whole social reproduction on prices.

The multitude of phases of social reproduction, the diversification of national economy branches, the connections between the economic units, internal and external market, complex process of formation of the goods value, delineates existing prices as autonomous mechanism.

Key words: labor value, price of demand, retail prices, correlations between prices, autonomous mechanism of prices

Clasificare JEL: O 01, P 16

1. Introduction

Regarding to base, to training factors of merchandise value (and prices) there were several schools of thought, several theories.

• **Labor value theory** developed and supported by representatives of English political economy: William Petty, Adam Smith and David Ricardo. Referring to the value of goods, David Ricardo concluded that *the goods*, having utility (which he considers essential to exchange value), derive their value from two sources: from *the rarity and quantity of work* necessary to obtain them.

• **Labor value theory supported by Marx.** Karl Marx took from the classic British the theory of labor value and developed it to an extreme form. Marx said that, in terms of quality, the goods are no more than *abstract human labor*, homogeneous, undifferentiated, socially recognized as useful and contains no value outside of work, and in terms of quantity, the size of value is determined by the labor time socially necessary to create goods. Therefore, Marx absolutizes the role of labor, especially the physical one, in the creation of value and denies the role of the utility of goods as a determinant factor of value, the usefulness being reduced to a simple premise. Work is seen as the only real measure that can serve in assessing and comparing goods and that it constitutes the real (natural) price of a commodity, and the amount of money defines the nominal price of goods.

• **Marginal utility theory** – according to this, the value (price) of a commodity is determined by *the marginal utility*, its size being a function of the rarity of these goods and the concrete mechanism relies on the law of supply and demand; the demand is a function of utility and the offer, rarity function. *The rarity of a good cause the size of the sacrifice for its obtaining.* Followers of this theory therefore put emphasis on the utility of the good as a factor of determining the value, giving priority to satisfy human needs, for which the production must subordinate. Also, in the value formation, they grant the work a role similar to the role of any other factor of production (capital, information or science, natural factors, a.s.o.) and not one exclusively. The value of a commodity, after this theory, is even greater as the last unit consumed of that commodity has a greater utility.

There are opinions by which the two concepts of value formation (labor value theory and marginal utility theory) do not automatically exclude, but, rather, separately both are one-sided and therefore should be considered complementary. The French economist **Charles Gide** considered that *formulating the offer (and price offer) costs are important, and formulating the demand (and the price of demand) the utility of goods.* Another economist, Alfred Marshall, said the amount is based on the final utility and expense of production and kept in balance between these two opposing forces.

By other economists, we can talk about two theories in value formation, one *objective* and one *subjective*. According to the **objective theory**, the value is given by both of the work incorporated into the goods, as well as the utility of goods. By the supporters of the **subjective theory** the value (exchange) is estimated by the utility and rarity of the goods, but also the solvency of the demand, they being situated on the position of the buyer.

Therefore, one can conclude that the formation of value and prices are important, the **usefulness** that determine, ultimately, the **demand and price of demand**, as well as the **production cost** through which the limited character manifests, the rarity of the production factors and which determine the **offer and offer price**.

2. The structural elements of prices

In a market economy, prices are formed as a result of the specific behavior of economic agents of how they manage to know the market and to adapt the activity or the consumption to the demands and market situation. Depending on the socio-economic conditions through which a country goes, in a given period, more importance has one or the other of the two factors (demand or offer) in pricing formation. In our country, in the transition period, the prices were generally imposed by the bidder and are based on high costs, a result of low productivity of labor, wages playing social protection role (not just labor remuneration) of economic and financial difficulties experienced by many economic agents.

Considering the stages and links which the goods go through in their movement from the producer to the consumer, the variation of size of expenditure depending on these stages, the particularities of movements of goods (some circulate only between economic agents, other reach to the end consumer), the structural elements of prices and of differences between the production field and the one of services, in business practices multiple price categories are used, and namely:

- wholesale prices;
- retail prices;
- tariffs;
- estimate prices;
- prices of export products;
- prices of import goods;
- contracting price and purchase price;

➤ **Wholesale prices** are the prices that are negotiated and circulating the products, generally, between the economic agents. They include the costs and profit, as a general rule, and some products, specified by normative acts, the wholesale prices include also the excise owed to the state budget.

Wholesale prices are mainly related to material goods manufacturers. They negotiate these prices level with the beneficiaries, depending on demand and offer. But, in the circuit of some goods from producers to consumers, interpose several categories of intermediaries: a company with wholesale and other with retail. In these cases, wholesale prices have to be negotiated between those commercial units.

Ultimately, the object of the negotiation does not constitute the price itself, the size of trade margins (commission) that revolves to the wholesale unit and that includes in the invoiced price to the retailers society.

In other cases, manufacturers open their products in own stores. Delivering products to these stores is also made at wholesale prices, and stores open the products on retail prices. Given the peculiarities of movement of goods, wholesale prices can be of two types and with two levels:

- *wholesale prices that devolve to the producing units and which marks the end of the production process.* They must ensure their production costs and obtain a profit rate, depending on market competition and achieve excise taxes due to state, if applicable. These prices are found in reports of sale-purchase between the units of material production branches, between those units and commercial wholesale units, as well as manufacturing units and own stores;

- *wholesale prices that devolve to the wholesale units, practiced at delivery of products by these business units to commercial retail units or public alimentation (or by other wholesale commercial units).* They include, in addition to the wholesale prices that devolve to the producers, the trade margins (commission) for the wholesale business unit.

Wholesale prices do not include VAT, but they constitute the tax base, the tax calculation for this tax. At wholesale prices the 24% quota applies, in the case of products delivered internal or zero quota for products delivered for export. There are some products exempted, for which no VAT is calculated.

Wholesale trade units may sell products directly to the population. In this case, the price includes VAT.

➤ **Retail prices** are the prices at which different products are opened or resold to the population by the specialized commercial units or by own shops of manufacturing units. Retail prices also apply to sales through the retail network to the state units, cooperative or private and public organizations. These prices are practiced especially for unproductive consumption products.

In terms of structure, they are the most complex, comprising besides costs, profit, excises (if required), trade margin (commission) for the wholesale business unit (if applicable) and trade margin (commission) due to commercial retail unit, as well as VAT, calculated and collected from all previous stages.

Retail price marks the end of the goods circuit that is entering in the final consumption.

Similar to retail prices, in terms of the scope and structure, are the **prices of public alimentation**. They also practice for goods destined for destined for final consumption, consumption which is made however

on the spot, within the public alimentation units. These units can supply themselves, as appropriate, directly from the manufacturers, from the network of wholesale or even retail network. Addition of public alimentation included in these prices is different from retail trade margins of prices, not only in terms of size, but also by its differentiation from town to town depending on the category of comfort and the degree of preparation of products that are opened through public alimentation units. Also, the units of higher classes add draw to the public alimentation and, where appropriate, service charge according to the legal dispositions.

➤ **Charges** represent the price category that is practiced in a specific field of activity, in the provision of services field. Depending on the category of beneficiary, charges have the wholesale prices character (when the services are performed, usually economic agents) or retail prices).

➤ **Prices estimate** – used to determine the prices of construction-assembly and repair works.

➤ **Prices for products destined for export** – which include all expenses made for the production, preparation, transportation to the border, commission of import-export company.

➤ **Prices of imported goods** – established as such or formed on the basis of prices in foreign currency denominated in foreign exchange in force plus customs duties, excises, VAT, customs commission, if applicable margin of importer.

➤ **Contracting prices and procurement prices** – at which agricultural products are bought from agricultural producers (production costs plus profit);

The price system created in Romania has specific features of the market economy, being distinguished 2 major structures:

- **Prices of goods and services**, which include production factors prices and prices of goods and services obtained on the account of the production factors;

- **Special prices** (interest, salary, price of land), which involves specific sectors of activity, and their evolution is determined by the market or legal regulations.

1) Depending on the *scope*, fundamental categories for prices of producers, traders and circulation of products are: wholesale prices of producers; trading prices (wholesale and retail); transfer prices;

2) Depending on *formation in the market mechanism* can be:

- Offer prices:

- catalog prices;
- quotation prices in the stock market;
- estimate prices;

- Effective prices:

- contract prices;
- auction prices;
- stock prices;
- consumer prices.

Exchange prices are established and used in certain goods: oil, grains, sugar, cotton, cocoa, nonferrous metals, natural rubber, a.s.o.

The mechanism of formation of these prices through stock market, consists of establishing the equilibrium point value, among all offers and all demands submitted by the sellers and buyers, directly or through representatives, in the hours of operation of the stock exchange.

Prices are displayed by stockbrokers.

Auction prices:

Are set through organized auctions within commercial organizations or traditional shopping centers;

Are formed by:

- minimum asking price method;
- the method of lowering the price when it is maximum.

List or catalog price:

• shall be determined by producers based on the analysis of production costs and compared to prices of competitors;

- shall be written in catalogs;
- shall be communicated to potential buyers.

Price agreement:

• is based on international agreements concluded on products, between exporting and importing countries;

- applies to goods with high share in international transactions.

In whole, prices and tariffs that are functioning in these categories include:

⇒ **Free prices** – formed through negotiation and established by contracts concluded between economic agents or displayed. These are the majority of prices. **Fixed prices** – are set by the government or authorized bodies (autonomous administrations state-owned commercial companies).

⇒ **Limit prices** – limits are established in the form of roofs as:

maximum limits:

- can not be exceeded by the free prices;
- applies to products of great importance for population consumption

minimum limits:

- below which is not permitted the establishment and application of commercial transaction prices.

In the pricing system are established and working:

- **prices without VAT**, which equates to turnover of product; they do not include VAT, being the basis for calculating the VAT which forms in the stage of question; are prices of the factors of production or prices of goods that are in intermediate stages of their economic circuit.

Between the different prices that make the pricing system, there are a variety of reports, relationships that can be grouped in bundles, correlations and interdependent.

3. Connections between prices

Connections between prices are the relationships between the different price categories from the point of view of structural elements. The existence of a price system requires ensuring of precise connections between different categories of price of the same product, depending on the economic circuit stages that a product goes through. For example, the connection between the wholesale price of a product taken over from the producers and the retail price is done by trade margins due to wholesale units and retail and VAT due to state budget. Because of these links, changing of prices of a class, trains modifications of connecting elements or may cause changes of the prices in the other categories. Mutual link of different price categories should not be seen as an automatic dependency between them. Given the specific functions and the different relative role of categories of prices without it to necessarily train or simultaneously and equally, adjusting the price of the other categories. Thus, the wholesale prices modification for some products not necessarily involve adjusting the retail price, or if involved, this can be done later, correlated with other measures concerning the protection of the population. Are also distinguished the *economic consequences of changing various prices categories*.

So for example, increasing or decreasing wholesale prices for goods moving between economic units, do not affect directly the standard of living, while changing retail prices or the prices of agricultural products purchased from manufacturers directly influence the real income of population and, if appropriate, income or expenses of state budget.

Correlations between prices are the relations between prices of the same category (between wholesale prices of various products, or between retail prices). These can be:

- *with general character*, such as: between (wholesale or retail) prices of food goods and industrial goods; between the same prices of various non-food goods (industrial); between the prices of agricultural and industrial product prices, a.s.o.;

- *with special character*: between the prices of goods that can replace each other (with different qualities, but for the same users); between the prices of goods that can not replace each other (with different qualities), but under certain conditions can be used in the manufacture of others; between the prices of goods that can be used as such and those that require further processing. If correlations with special character are not provided, a process of substitution of goods can take place.

Defined in the most general terms, the **PRICE** is **an amount of money received or paid for disposal, respectively obtaining a good or service**. Economically, the price is the monetary *expression of value of the goods or services to be exchanged* and is an economic category.

The price expresses the money relationships that occur and take place between economic agents, between them and the population, between citizens, between different companies and countries, a.s.o. regarding the expression in money of the value of goods to be exchanged. But now, the price is not limited to the value of goods and services to be exchanged, but includes in its scope other acts and deeds and can thus speak about: stock price, bonds and other securities, concessions price (royalty), management locations price, price of borrowed capital (interest) or the one used (depreciation, rent), a.s.o.

The existence of prices is related to the exchange process, the market being the sine-qua-non condition for pricing forming.

Defining the role of the market, its mode of operation must be carried across the forecast impact and type of ownership (public, private or cooperative).

Thus, overall economy may be: exclusive on market, planned or mixed.

Essential for the “market” economy are the following:

- the existence of independent economic units, independent from each other;
- sale-purchase direct links between them;

➤ existence of free or liberalized price;

At the microeconomic level, of company, groups of companies, of branch, the economy has in conditions of freedom (full autonomy) of producers, both characteristic of the market, as well as plan, foresight.

Each company develops its plan, sets its retail prices, manage their free capital (funds), takes decisions regarding the use of credits and on national and international trades.

Elucidation of the content of the problem of price requires to approach the value as an abstract size, which can be explained both in terms of objective, defined by the intrinsic characteristics of a good thought obtained through work, but also through the relations between the producer and the consumer of the good, between this last one and the material object of the good, as well as the relations between them and the public power, as representative of the whole society.

In the exchange of goods occurs, so, the exchange value of useful things.

This is given by the amount of work required to obtain them, on the one hand, and technical-qualitative performance, of importance and rarity, on the other hand.

Classical political economy highlighted that work is the only real measure that can be used to assess and compare the value of all goods.

But, as in the sale price accumulation elements of the capital are involved (profit, rent) and taxation, in reality there can be no precise reports between natural prices of goods and their contents expressed in labor costs, which are much more complex.

According to the subjective theory of value, it appeals to the estimative value (appreciated, approximated), which man attaches to various desired goods, depending on their skills to meet the consumer needs, quality and rarity, the difficulties of purchasing by the consumer.

In the exchange process, one of the two partners expect (want) less the act of sale-purchase and compel the other to approach his price, achieving the equalization of the value of their work for a unit of the product in question.

The average estimated value transforms into exchange value as appreciated size, expressed in its price or exchange condition.

It can be noted that the supporters of the objective value theory are situated on the bidders rank, of those who wish to cover their expenses through price and to ensure getting profit, with the pretext of incorporated work recovery, and supporters of the subjective value theory are situated on the buyers position, of those who appreciate the exchange value through the utility, rarity of the product, but also through the solvency of their demand.

In appreciation of the exchange of goods value, such elements are found in the freely expressed report between the offer and request. The prices are formed as a result of the specific behavior of economic agents, of how they manage to know the market better “game rules” and how they use this knowledge in their own work to ensure their net earnings, sometimes even survival.

In addressing the issue of prices content should be considered the complexity of the economic phenomena that reflects, interdependencies between branches, sub-branches, products, services, activities.

From this point of view we can say without hesitation that the price of each good or service is also the price of the others.

The formation of the unit price of the goods or services is not the result of a isolated measurement based on criteria or judgment elements exclusively microeconomic, at the economic agents’ level seen separately, but the result of interaction, the confrontation of the economic and social factors influence, which propagates across the whole network of the economic structure, from expenditure and revenues and from revenues into expenditure.

Prices are key points of these transformations and interactions.

Such connections that prices express them in this complex process of economic interaction are called relative prices, defined by the ratio between the absolute (nominal prices) of goods from structures that are compared.

The ratio between the natural price and the market price is influenced by the market game, the supply-demand ratio, especially by the competition. Under this influence, the market price, with which the goods are sold, may be higher or lower than the level of the natural price.

From the point of view of the supply-demand ratio, when the two sides are equal, the market price is at the level of the natural price (real); when the demand is in excess, the market price falls below the natural price level; when the demand is deficient, the market price rise above the natural price.

The market price fluctuations up or down cause opposite results, with different amplitudes and, therefore, determine appropriate guidelines in the use of material resources, financial and human from the producers, consumers, and state.

Restoring the equilibrium requires knowledge of the effective demand (real) and the adjustment of the offer to its level and structure.

Market prices level is influenced by the amount of money in circulation. Although money does not intervene in the determination of trade exchange, of defined price structure of relative prices, which intervene in the fixing of the absolute level of prices.

4. Conclusions:

Systematic approach of prices allows the identification of connections and interconnections between the price system and other components of the national economy macro-system, the process of production of material goods, productive and unproductive consumption, exports, imports, financial system, credit, and currency.

The interconditionality of the price system with the basic components of the national economy can be seen in multiple facets.

In the system of prices it transforms in heterogeneous elements, of costs and net income, in homogeneous dimensions expressed in value in prices.

The functioning of the autonomous mechanism of prices is thus characterized by the following aspects:

- the real reflection through the prices and production costs and opening of the products and services, recognized in the process of formation of market prices;
- estimation of the value of goods is different in every moment or stage even if, its confrontation with prices already set but does not immediately lead but in a next step to the modification of price decisions;
- the level and structure of prices of economic goods are substantiated necessarily on the basis of the reflected proportions on the market, as segments of the ratio between offer and demand;
- the limits of the free fixing decisions of prices are determined by the subjective elements but also the objective ones that could not be identified by estimated calculation of the supply-demand ratio; deviations are notified through the reverse connection links that provide continuous self-regulation prices system.

5. Bibliography:

- [1] Bâldan, C., Ungureanu, E., „Concurență și prețuri”, Editura Sitech, Craiova, 2009;
- [2] Bâldan, C., Ungureanu, E., „Prețuri și concurență. Aspecte teoretice, teste grilă, aplicații”, Editura Sitech, Craiova, 2010;
- [3] Vasiliu R., „Concurența și ajutorul de Stat”, Editura Tribuna Economică, București:, 2009;
- [4] Văduva C., " Prețuri și Concurență", Editura Academica Brâncuși, Târgu-Jiu, 2008;
- [5] Vrânceanu D., Politici de prețuri, Editura Uranus, București, 2006.