

## LEVEL, DYNAMIC AND PRICE CORRELATIONS

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**Abstract:** THE PARTICIPANTS TO THE ECONOMIC LIFE PERCEIVE THE PRICE UNDER THE FORM OF ITS LEVEL WHICH EXPRESSES WITH THE HELP OF PRICE INDICES; THE APPROACH IN TIME AND SPACE OF PRICE INDICES REFLECTS THE PRICE DYNAMICS AND THEIR EVOLUTION IN CLOSE CONNECTION WITH THE ASPECTS OF THE ECONOMIC ACTIVITY DETERMINES CORRELATIONS BETWEEN PRICES. IN A MARKET ECONOMY, PRICES ARE FORMED AS A RESULT OF THE SPECIAL BEHAVIOR OF ECONOMIC AGENTS, OF THE WAY THEY MANAGE TO KNOW BETTER THE MARKET AND TO ADJUST THE ACTIVITY OR CONSUMPTION TO THE REQUIREMENTS AND MARKET SITUATION.

THE PRICE OF CONSUMPTION GOODS IS BIG OR SMALL, THE APPRECIATION IS RELATIVE, THE SUBJECT REPORTS THE SIZE OF THE PRICE TO HIS AVAILABLE INCOME OR TO THE FOLLOWED OBJECTIVES.

THE CONSUMER GIVES DIFFERENT INTERPRETATIONS TO A PRICE REDUCTION, THE PRODUCTS IS ABOUT TO BE REPLACED WITH ANOTHER MODEL, THE PRODUCING COMPANY IS IN FINANCIAL DIFFICULTIES AND IT CANNOT RESIST TO SUPPLY THE PRODUCT IN THE FUTURE, AND A HIGH LEVEL OF PRICE INCREASE IS DIFFERENTLY PERCEIVED BY THE BUYER. THE PRODUCT IS RECENT AND IF IT HAS A HIGH QUALITY THE SELLER DESIRED A FAST ENRICHMENT AND ASKS A HIGHER PRICE, RECEIVING AS THE MARKET SETS OUT. THE PRODUCER-SELLER AGENT IS PREOCCUPIED WITH THE PRICE SIZE. IF THE PRICE OF ITS PRODUCTS IS TOO LOW, THE COMPANY MIGHT NOT OBTAIN SMALL NORMAL PROFIT TO CONTINUE THE ACTIVITY. A HIGH PRICE LEADS TO THE RISK OF NOT BEING ANY DEMAND FOR THE PRODUCTS OF THE COMPANY. IN DEFINING THE PRICE STRATEGY, THIS MUST START FROM THE PRODUCTION COSTS, AND ALSO THE CONSUMER'S PERCEPTION ON ITS ASSETS. IF THE PRICE COVERS THE PRODUCTION COST, WORK IS THE BASE OF ITS FORMATION AND THE OBJECTIVE FORM OF THE EXCHANGE REPORT PROVES THE VALIDITY; AS THE PRICE LEVEL GROWS AS AN EXPRESSION OF THE DEMAND INCREASE, THE GOODS UTILITY IS THE DETERMINING FACTOR OF THE PRICE AND THE SUBJECTIVE THEORY IS PROVEN. THE PRICE BEING AN AMOUNT OF MONEY MEANS THAT ITS LEVEL IS INFLUENCED BY THE AMOUNT OF CURRENCY EXISTING IN CIRCULATION

**Keywords:** PRICE, LEVEL, RISK, COSTS, PROFIT.

## 1. INTRODUCTION

All participants in the economic life perceive the price under the form of its level, which is most commonly expressed as a percentage, with the help of price indices; the approach in time and space of the latter reflects the price dynamics and their evolution in close connection with most aspects of the economic activity leads to the surprise of many correlations between prices.

In relation to the price of consumer goods, it is said to be high or low, exaggerated or convenient, but the assessment is relative, because the subject reports the size of the price to its available income or to the objectives pursued. Specifically, the consumer gives different interpretations to a low level, namely to a price reduction such as: the product is either about to be replaced by another model or has certain flaws, the producing company is in financial difficulties and cannot resist to provide the product in the future, or was reduced the good quality etc.; a high level, namely an increase in price is also perceived differently by the buyer: whether the product is new or has a high quality or the seller wants a rapid enrichment and acts demanding a high price, to ultimately get as the market sets. In turn, producer and seller agent is concerned about the size of the price. At a too low price of its products, the company may be in the situation of not making a profit, not even normal, meaning of that profits which would be just enough to continue the activity. At the other extreme, there is the risk of non-existing the demand for the company's products at a price too high. Therefore, to define the strategy of price, it must be based on production costs - which include the accounting costs and normal profit - but also on the consumer's perception about his/her goods. It can be said that if the price covers the cost of production, work is based on his training and the objective theory of the exchange report is demonstrating its validity; as the level of price increases as an expression of increased demand, the usefulness of good becomes the determining factor of price and the applicability of the subjective theory is proven.<sup>2</sup>

## 2 THE THEORY ABOUT PRICE AND THE IMPORTANCE FOR ECONOMIC GROWTH

In the context of the Romanian economy, the price level is a manifestation of the concrete conditions to develop the economic activity, where price liberalization on the one hand, and chain of regular indexing of the wages, on the other hand, have resulted in price increases, to increase their level; the causes are numerous: the offer is below the demand, there is no competition between manufacturers, the labor productivity is low and the economic agents work under the maximum production capacity etc.

The price, being practically an amount of money, means that its level is influenced by the amount of currency existing in circulation. Although money do not intervene in determining the exchange ratios, relative prices, it manifests its influence in determining the absolute level of prices. The obvious correlation between the price level and the amount of money circulating in the economy at a time can be analyzed from two points of view, depending on the different role that the currency is considered to hold within the economy. The first refers to the classical approach, where the economic circuit is developed after J. B. Say's law of outlets, considering that the only function of the currency is to be an intermediary of the exchange, and the second takes aim to fixing the price after J. M. Keynes, when the currency may be claimed for itself and not the entire money demand turns into demand for goods.<sup>3</sup>

Regarding the basis, the forming factors of the goods (and prices) value, there were several thinking tendencies, several theories.

*The theory of labor value* developed and supported by the representatives of the English political economy: William Petty, Adam Smith and David Ricardo. Referring to the value of the good, David Ricardo concluded that the goods having usefulness (which he considers essential for the exchange value) draw their value from two sources: the rarity and quantity of labor required for their production.

2. Băbăiță, Gr. Silasi, A. Duță, *Macroeconomie*, Editura Mirton, Timisoara, 2005

I.

3 F. Alexandru, *Prețuri și concurență*, Editura Didactică și Pedagogică, București, 2007

***The theory of labor value sustained by Marx.*** Karl Marx took from the English classics the theory of labor value and developed it to an extreme form. Marx said that, in terms of quality, the value of goods is nothing but abstract, homogeneous, undifferentiated human labor, socially recognized as useful and that the value does not contain anything besides work, and in terms of quantity, the value size is determined by the socially necessary labor time for creating goods. Therefore, Marx generalizes the role of labor, especially the physical one, in creating the value and denies the role of the usefulness of goods as a determinant factor of value, the usefulness being reduced to a simple premise. Work is considered the only real measure that can serve in assessing and comparing goods and it constitutes the real (natural) price of goods and the amount of money defines the nominal price of good<sup>4</sup>.

***The theory of marginal usefulness*** – according to this, the value (price) of a good is determined by the marginal usefulness, its size depending on the rarity of the goods in question and the specific mechanism of establishment is based on the action of the law of supply and demand: the demand is a function of usefulness and the offer depends on the rarity. The rarity of a good determines the size of the sacrifice to obtain it. The adherents of this theory therefore put emphasis on the usefulness of the good as a factor in determining the value, giving priority to meeting the human needs, which must be subordinate to production. Also, in forming the value, they give work a role similar to the role of any other factor of production (capital, information or science, natural factors, etc.) and not an exclusive one. The value of a good, according to this theory, is as greater as the last unit consumed from that good has a greater usefulness.

There are also views saying that the two conceptions on the value formation (labor value theory and theory of marginal usefulness) do not automatically exclude, but rather, taken separately both are one-sided and therefore should be considered complementary. Thus, the French economist Charles Gide considered that costs are important in formulating the offer (and the offer price), and the usefulness goods in formulating the demand (and price demand). Another prominent economist, Alfred Marshall, said that the value is based on the final usefulness and production expense and it is maintained in the balance between these two opposing forces.<sup>4</sup>

According to other economists, we can speak of two theories in value formation, one objective and one subjective. According to the objective theory, the value is given by the work incorporated into the goods and the usefulness of the goods. According to the maintainers of the subjective value, the (exchange) theory is assessed by the usefulness and rarity of goods, but also by the solvency of the demand, being on the position of the buyer.

Therefore it can be concluded that prices are important in forming the value, both the usefulness that determines, ultimately, the demand and price demand, and the cost of production which manifests the limited character, the rarity of the production factors which determine the demand and price offer.

In a market economy, prices are formed as a result of the specific behavior of the economic agents, of how they manage to better know the market and to adapt their activity or consumption to the requirements and market conditions. Depending on the economic and social conditions that a country passed through in a given period, more importance has one or other of the two factors (demand or bid) in price formation. In our country, prices were generally imposed by the bidders during the transition period and rely on high costs, a result of low productivity of labor, of the wages which also play the role of social protection (not just to pay the labor), of economic and financial difficulties experienced by many economic agents.

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<sup>4</sup>I.. Moga , *Preturi prin concurență*, Concurență și preturi,, Ed Continent, Sibiu, 2

Taking into account the stages and links through which the goods pass in their movement from manufacturer to consumer, the size variation of expenditure according to these stages, the specificities of the movement of goods (some travel only between the economic agents, other reach the consumer), the structural elements of prices and the differences between the production and the services, there are used multiple price categories in the economic practice, namely<sup>5</sup>: -wholesale prices; retail prices; tariffs, estimate prices, prices for export products, prices of imported goods, prices for contracting and procurement prices

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

The wholesale prices are mostly related to material goods manufacturers. They negotiate the level of these prices with the beneficiaries, depending on demand and offer. But there are interposes several categories of intermediaries in the circuit of goods from manufacturers to consumers: a wholesale company (en gross) and other retail one (en detail). In these cases, the wholesale prices have to be negotiated between the respective commercial units. Ultimately, the subject of negotiation is not the price itself, the size of the trade mark-up (commission) incumbent to the wholesale unit and that includes the price invoiced by the retail company.

In other cases, manufacturers sell the products in their own stores. The delivery of products to these stores is done at wholesale prices, and the stores sell the products on retail prices. Given the peculiarities of the movement of goods, wholesale prices can be of two types and two levels<sup>6</sup>:

7 wholesale prices incumbent to the producing units and which marks the end of the production process. They must ensure them the production costs cover and obtain a profit rate, depending on the competition in the market and achieve the excise duty payable to the State, as appropriate. These prices are found in the sales and purchase relationships between the units of the branches of material production, between these units and the wholesale commercial units and between the manufacturing units and own shops;

8 the wholesale prices incumbent to the wholesale trade units, practiced at the delivery of products by these business units to the retail commercial units or food public services (or other wholesale commercial units). In addition, they include compared to the wholesale prices incumbent to producers, the trade margins (commission) for the wholesale commercial unit.

Wholesale prices do not include value added tax, but they shall be the taxable base, the base for calculating this tax. Wholesale prices are applied the 24% quotation, for products locally delivered or zero quotation for deliveries of goods for export. Some products are exempt, for which no VAT is calculated.

The units of wholesale trade can also sell the products directly to the population. In this case, the price includes value added tax.

Retail prices are the prices on which different products are sold or resold to the population produced by specialized commercial units or the own shops of the producing units. Retail prices also apply to sales through the retail network by the State, cooperative and private units and community organizations. These prices are especially practiced for the products destined to the unproductive consumption.

<sup>5</sup>C. Popescu, D. Ciucur, *Microeconomie Concurențială*, Editura Economica, București, 2007

<sup>6</sup>M. Văduva, C.E.Văduva, *Prețuri și concurență*, Noțiuni de bază și aplicații, Ed. Universitaria, Craiova, 2013

In terms of structure, they are the most complex, comprising in addition to costs, profit, excise duties (if applicable), trade mark-up (commission) for the wholesale trade unit (if applicable) and trade mark-up (commission) due to the retail commercial unit and value-added tax calculated and collected from all previous stages<sup>7</sup>.

The retail price marks the end of the goods circuit entering in the final consumption.

Similar to the retail prices, in terms of scope and structure, they are food public service prices. And they are practiced on goods destined for final consumption, consumption that is made immediately, in the food public services units. These units can provide, where appropriate, directly from the manufacturers, from the wholesale network or retail network. The addition of food public service included in these prices differs from the trade mark-up in retail prices, not only in terms of size, but also by differentiating it from town to town depending on the category of comfort and the degree of preparation of the products that are sold the food public service units. Also, the units of the higher classes add to the prices of food, where applicable, the service charge according to the law.

Tariffs are price category that is practiced in a specific field of activity, in the services field. Depending on the beneficiary's category, tariffs have wholesale price character (when the services are usually provided by the economic agents) or retail prices.

Estimation prices - used to determine the prices of construction and assembly works and repairs.

Prices of the goods for export - which include all expenses incurred for the production, preparation, transportation to the border, commission of the import-export company.

Prices of imported goods - established as such or formed based on foreign currency prices, expressed in the currency exchange rate in force plus the customs charges, excise duties, VAT, Customs fee, importer's margin if appropriate.

5 production or prices of goods found in intermediate stages of their economic circuit;

6 prices with VAT, as invoicing prices and thus for purchasing, paid by buyers.

Detail prices include VAT and the final consumer (population) is the real bearer of the charge. They are called retail prices.

### 3. CONCLUSIONS

Between the different prices that make the price system there is a diversity of relations, relationships that can be grouped in: connections, correlations and interdependencies.

The links between prices are the relationships between the different price categories from the point of view of the elements of structure. The existence of a system of prices requires ensuring certain precise links between various price categories of the same product, depending on the phases of the economic circuit that a product goes through. For example, the link between the wholesale price of a good taken from the manufacturers and the retail price is achieved by the trade mark-up ought to the wholesalers and retail units and VAT due to the State budget. Due to these connections, the change of prices from a category involves changes in the connecting elements or may cause price changes in other categories. The reciprocal link between the different price categories should not be understood as an automatic dependence between them. Given the specific functions and the relative role of different price categories, there is the possibility to change the level of a price category without this leading to necessarily or simultaneously and equally, adjusting the price of other categories. Thus, the change in the wholesale prices for some products does not necessarily imply the adjustment of the retail price or if it entails, it can be done later, correlated with other measures on the protection of the population. The economic consequences of the modification in different price categories are also distinguished.

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<sup>7</sup>C. Popescu, D. Ciucur, *Microeconomie Concurențială*, Editura Economica, București, 2007

<sup>8</sup>I Băbăiță, Gr. Silasi, A. Duță, *Macroeconomie*, Editura Mirton, Timisoara., 200

So for example, increasing or reducing wholesale prices for goods moving between the economic units, does not directly affect the standard of living, while the change in retail prices or of prices for agricultural products purchased from producers directly influences the real income of population and, where applicable, the income or expenses of the State budget.

The correlations between prices are the relations between prices in the same category (between the wholesale prices of various products or between the retail prices). These may be:

b) with general character, as for example: between the (wholesale or retail) prices of food and industrial goods; between the same prices of various non-food goods (industrial); between the prices of agricultural products and the prices of industrial products, etc.

c) with special character: between the prices of the goods that can replace each other (with different characteristics, but for the same uses); between the prices of the goods that cannot replace each other (with different characteristics), but 'which under certain conditions can be used in the manufacture of the others; between the prices of the goods that can be used as such and those requiring further processing. If the correlations with special character are not provided, a process of substitution of the goods can take place.

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