An analysis of pricing strategy under growing income inequality: a case of travel product

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Abstract
From the perspective of the firms, it is important to understand customer’s demand and willingness to pay (WTP). The objective of this study is trying to present the pricing strategies on growing income inequality in order to maximize the firm’s profit. A basic premise of this study assume that effective demand function is influenced by consumer’s affordable price.

We discuss when the firms set unit selling price of the product is higher(lower) than average value of consumer’s affordable price, whether it will affect profit of the firms, optimal selling price or not. The numerical analysis demonstrates under growing income inequality, when the firms set unit selling price of the product is higher than the average value of consumer’s affordable price, the higher of unit selling price does not bring more beneficial to the firms. When the firms set unit selling price of the product is lower than the average value of consumer’s affordable price, the profit of firms would be gradually convex as the high of unit selling price is.

Keywords : Income inequality, willingness to pay (WTP), affordable price, pricing strategies.

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