Price elasticity of demand:

\[
\frac{Q_2 - Q_1}{\text{avg } Q} = \frac{P_2 - P_1}{\text{avg } P}
\]

We assume it's negative
Price Elasticity of Demand

Elastic Demand
Quantity Demanded is Very Responsive to Change in Price

Inelastic Demand
Quantity Demanded is Not Very Responsive to Change in Price
Target return = \frac{\text{desired return}}{\text{sales}} \times \frac{\text{unit sales}}{\text{cost}} + 5000

\begin{align*}
\text{Price} &= \frac{.20 \times \$1,000,000}{50,000} + 5000 \\
&= \frac{\$200,000}{50,000} + 5000 \\
&= \$400 + 5000 \\
&= \$5400
\end{align*}
Understanding the Experience Curve

As cumulative production doubles, per unit cost decreases by a predictable percentage.
Where Your Drug Dollar Goes

The price of the average prescription drug jumped 10% from 2000 to 2001. Here's how each dollar you spend is divvied up.*

- Pharmacy: 24%
- Drug-company marketing: 22%
- Production, ingredients: 16%
- Research: 15%
- Drug-company profit: 13%
- Drug-company taxes: 6%
- Distributor: 3%

*Does not equal 100% due to rounding

SOURCE: Prime Institute, based on drug company revenues and expenditures
Retailer's price to consumer = 100% ($50)

Mark-up = 40% ($20)

Wholesaler's price to retailer = 100% ($30)

Mark-up = 20% ($6)

Cost = 60% of retailer's price to consumer ($30)

Cost = 80% of wholesaler's price to retailer ($24)

Producer's price to wholesaler = 100% ($24)

Mark-up = 15% ($3.60)

Cost = 85% of producer's price to wholesaler ($20.40)

Price

$50
$45
$40
$35
$30
$25
$20
$15
$10
$5
$0

Producer
Wholesaler
Retailer