SNS COLLEGE OF TECHNOLOGY

An Autonomous Institution
Coimbatore-35

Accredited by NBA – AICTE and Accredited by NAAC – UGC with 'A+' Grade
Approved by AICTE, New Delhi & Affiliat
ed to Anna University, Chennai

Department of Automobile Engineering

III YEAR/ VI SEMESTER
19MEE301 / Engineering Economics and cost Analysis
UNIT-5

Full cost pricing

The Full Cost Pricing (FCP) Policy applies to SBAs2 that are not government-owned corporations(GOCs) and fully commercialised business units (CBUs) in accordance with the Commercialisation of Government Business Activities in Queensland Policy Framework.

The FCP Policy is incorporated by reference into the Queensland Government's Financial Performance and Management Standard 2009 (FPMS). The FPMS requires that relevant SBAs and CBUs must apply the Policy.

The FPMS is subordinate legislation under the Financial Accountability Act 2009. Accordingly,while the FCP Policy itself does not have any legislative status, the FPMS imposes a statutory obligation upon SBAs and CBUs to comply with the Policy.

Components of a full cost pricing policy

In the private sector, prices are usually set so that as a whole across the enterprise, they recover the full cost of the provision of all goods and services, taxes and similar charges plus a Suitable return on the owners' investment.This concept is incorporated in this Policy through the establishment of a cost benchmark for each SBA or CBU. The benchmark must take into account all costs incurred in producing and delivering the goods and services, as well as taxes and other Government charges faced by the private sector competitor or equivalent business. Prices must incorporate this benchmark plus are turn on investment similar to that required by the owners of the private sector competitors or

equivalent businesses.Each SBA or CBU to which this Policy applies is to be examined separately to set the benchmark,and each SBA or CBU must price commercially. The rate of return must be achieved over the medium term. This will allow the relevant SBAs or CBUs to establish the required commercial structures.

Marginal-cost pricing

Marginal-cost pricing, in economics, the practice of setting the price of a product to equal the extra cost of producing an extra unit of output. By this policy, a producer charges, for each product unit sold, only the addition to total cost resulting from materials and direct labour.

Businesses often set prices close to marginal cost during periods of poor sales. If, for example, an item has a marginal cost of $1.00 and a normal selling price is $2.00, the firm selling the item might wish to lower the price to $1.10 if demand has waned. The business would choose this approach because the incremental profit of 10 cents from the transaction is better than no sale at all.

In the mid-20th century, proponents of the ideal of perfect competition—a scenario in which firms produce nearly identical products and charge the same price favoured the efficiency inherent in the concept of marginal-cost pricing. Economists such as Ronald Coase, however, upheld the market’s ability to determine prices. They supported the way in which market pricing signals information about the goods being sold to buyers and sellers, and they observed that sellers who were required to price at marginal cost would risk failing to cover their fixed costs.