

Methods of Interpreting Prices

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Abstract: Everything has a price is an expression encountered not only in the business world or in the underworld, but also wherever people are faced to some options or trade relations.

In its general meaning (the one specific to the current language), price refers to everything that is offered or transferred (in the form of money, but not only) in order to obtain something. According to this definition, we can refer to prices (even if this would be rather surprising for the economists) even beyond acts of trade, independently of the idea of merchandise.

Thus the *first category* of prices to which we can refer is the one of *extra-economic prices*. For example, the price of a good consumed by the person who made it (which, obviously, is not considered merchandise) is the *effort* (physical and intellectual) that has been made in order to produce it. Besides, the price “paid” by the person who acquires a good by defalcating it from its owner is *the fear* of being caught or the time of *detention* that results as a punishment. The price that the beggar “pays” for the goods he cadges is the *shame* of doing such a thing. The price paid by a deceitful politician who gives people hope in vain is his *disparagement* in front of the poll, etc.

In economy, *price is the money expression of the (objective, subjective, entropic) value of the merchandise*.

Since this notion is used in an extremely large area, from one case to another it has been replaced by a series of other notions, with analogous meanings.

Thus, in the case of the *material goods*, the expression used is the one of *price*, this having the exact meaning conveyed by the definition we have just mentioned.

Then, a very frequent use is given to the notion of *charge*, naming the *price of a service* (of merchandise which is not material). Therefore, the notion of charge can anytime be replaced by the one of price (however, this is not a converse relation). That is why it is as obvious (we believe) as possible the fact that the expression “prices and charges” - a very common one even among economists (in some faculties that study economy, there is even such a subject in their curricula) is, actually, a pleonasm. Since a charge is nothing else than a price, this expression should definitely be avoided. A special type of merchandise, the workforce, deserves a specific price, and that is *the salary*. The price we pay in order to get *the right of using a certain utility* (a parking space, for example) is known as *tax*, as well as the one we pay in order to take part in some events (conferences, for example). In order to receive *the right to use* some goods (houses, cars, etc.) on a limited period of time, the price we pay is the *rent*, this having a wide area of usage.

In the case of some *special services* (law offices, medical services, etc), the price that allows us to use them is the *charge*, and in the case of some others, of a better quality than we had expected (the waiter in a restaurant, the person having carried our luggage, etc), it is known as a *tip*.

In order to enter some political parties, organizations, associations or clubs, the price that has to be paid is known as *subscription*.

If we want to benefit of some apparently “free of charge” service (defense, education, medical care), people pay a price under the form of *duties*. This is the same

term used for the price we pay for the incomes we make or if we want to use our own property.

Besides, in order to persuade some persons (like the clerks, for example) into favoring us (but not only), the price paid is the *bribery*. For the luxury of having done some contravention, we get to pay a *fine*.

Therefore, price (no matter the name it has), is present almost everywhere in man's life, simplifying or complicating his existence. That is why, it is impossible to ignore it. Hence we can understand the great preoccupations it generates every day in every domain and with all types of specialists.

The idea that everything has a price has made the preoccupations regarding its essence and implications leave the domain of economy quite often and enter, practically, everywhere. Thus, it is a topic for engineers, jurists, sociologists, psychologists, designers, artists, theologians, farmers, bargainers and all the other social categories, each of them approaching it from their own point of view. Without considering it "intrusion" in the economists' affairs, everyone agrees that they are the real specialists in the matter of prices, and they have the task of elucidating the contents and functions of prices in the economic system.

Interpretations of the Trade Equation

Anyone who is in a market (initiated or not in the problems of economy) may, at anytime, observe that an act of trade starts from a relation (also called *trade equation*) of the type:

$$x \leftrightarrow y$$

where: x, y – are quantities of two different merchandises X and Y given and also, at the same time, purchased through the act of trade by two different persons (one who own X and needs Y , and one who own Y and wants X).

More exactly, this relation could look like this:

$$2 \text{ axes} \leftrightarrow 80 \text{ kilograms of wheat.}$$

The fundamental question formulated once trade appeared was the following: **Why x units of X merchandise are traded on y units of Y merchandise and not on another quantity?** Or, in our specific example :Why 2 axes are traded on 80 kilograms of wheat and not on 3 kilograms, 200 kilograms or even 715?

In order to get to the correct answer, some rather discouragingly laborious researches have been made, whose results have been materialized in some different economic theories having in the centre of attention value and its representative on the market: price.

The *quantitative report* y/x (or $80/2$, in our example) where the X merchandise is traded for the Y merchandise has been recently named **trade value**, it being the first (physical) expression of the **price** of a merchandise expressed of units of the other one. After the appearance of money, this automatically turned into the actual price.

Without having any knowledge of economy, anyone can tell that *the price of the X merchandise equals y/x units of Y merchandise* (the price of an axe is $80/2 = 40$ kilograms of wheat), and the price of the Y merchandise is x/y units of X merchandise (the price of a kilogram of wheat is $10/80 = 2/80 = 1/40$ axes). How would you have explained this price?

From our point of view "**what is the right price?**" is actually the most famous form of the fundamental question regarding the theoretic essence of price.

The answer to it has generated a series of scientific debates (with some really benefic effects on the progress of the economic sciences) but also ideological ones (which distorted the meaning of many positive accomplishments), thus becoming obstacles in front of the trials to establish a general and unique theory of the prices.

Methods of Expressing Prices

In time, there have been known two main ways of trading: merchandise for merchandise, merchandise for money and money for money. From here there resulted two ways of interpreting prices: the natural form and the “money” one.

Prices in Natural Units

The merchandise for merchandise trade (the barter) has dominated the market in its initial phase of existence, being specific for the first form of value. Somehow, it is maintained nowadays, inclusively in the international economic relations (the clearing)

When a good (an axe) is traded for another good (5 loaves of bread), the price of every merchandise is expressed in natural units of the other merchandise. By successively exchanging the places the two goods take in the trade equation, each of them shall get to measure its value through the other one, the equivalent of the value being modified, too. Thus, the price of an axe shall equal 5 loaves of bread (when we consider that an axe can be traded for 5 loaves of bread), and the price of a loaf of bread shall be of 1/5 axes (should we consider as a departing point the reverse of the first equation, considering that we can trade 5 loaves of bread for an axe). In the first situation, the axe is the merchandise that changes its price, and the loaves of bread have the role of the equivalent (and of natural units of measuring the price), the two types of merchandise then changing their roles. In all of the situations similar to this one, **the price becomes the natural expression of the traded value**, thus creating an overlap between the economic categories of traded value and price.

Such an interpretation of the price represents another *common element* of the theories concerning them.

Prices Expressed in Money

The most widely spread method of trading is the one mediated by the money merchandise, reason for which prices are also, almost exclusively, expressed in money.

Due to its special function of general equivalent of the value, money can be transformed anytime in any other type of merchandise, thus considerably facilitating exchanges. It is equally used by buyers and sellers, making production and consumption become a lot easier to perform.

Mainly, the seller first transforms his merchandise into money, which he receives from the buyer, and which he can lately use for buying some other goods, thus becoming himself a buyer.

On the other hand, the buyer's money also comes from other selling and purchasing processes. Thus, money exerts its function as a *means of circulation* (and, implicitly, of trade). Through its intervention, the direct trade of merchandise X for merchandise Y is separated into two independent acts of the type:

X Merchandise – Money and Money – Y Merchandise.

In the majority of cases, these two acts do not coincide in time and space, a thing which may generate delays in the process of selling and buying, and even the appearance of economic crises.

As merchandise, money has utility (their own value of use), offering satisfaction to their owners (just like the owning and the use of any other type of merchandise). Moreover, it has objective value, since some amounts of human labour have to be performed in order to obtain it. With its two aspects, money shall be able at any time to turn into a value standard (of the subjective and of the objective value).

Besides its function as a means used for trade, money also has the function of *the measure of the value*.

Both the objective and the subjective theory of the value agree on the fact that **price is the money expression of value**, this thesis being a capital element of their convergence.

Price as the Expression of Gain and Sacrifice

Before resorting to any of the two theories of the prices, they can be given two different interpretations: one as the expression of a sacrifice and the other as the “impersonation” of a gain.

Price as the Expression of a Sacrifice

No merchandise is requested or obtained for free on the market. In order to get it, one other must definitely be given up to, which is thus sacrificed. The owner of the axe from the given example has to give up the merchandise he owns (the axe) in order to get the 5 loaves of bread, and the owner of the 5 loaves of bread has to give up the merchandise he owns in order to get the axe.

Therefore, *price is, before everything else, the expression of the renunciations or of the sacrifices that a person has to make in order to obtain a good.*

But the owner of a good does not sacrifice it only when he decides to trade this for another one. He simultaneously sacrifices all the other goods that he could have got from exchanging his merchandise. For example, the owner of the axe does not just sacrifice the axe that he gives to the baker when he decides to purchase the five loaves of bread, but also two litres of milk, or a litre of oil, or ten rides with a means of transport, or two tickets at a ballet show or any other merchandise he could have obtained had he put his good in other relations of trade. All these renunciations or sacrifices have been included in the economic sciences under the name of *convenience cost*¹. In this context, the notion of cost loses its regular signification in front of the one of “price”. Putting it otherwise, the axe is the price paid (the sacrifice made) in a very definite relation of trade in order to purchase the five loaves of bread.

Stepping out of the narrow domain of the barter, but maintaining the same manner of looking at things, *prices shall appear as the **monetary expression** of the renunciation or sacrifices* that the buyers have to make in order to get the merchandise they need for consumption. With a different meaning, they also appear under the name of **prices paid** by the ones who set themselves to purchase some merchandise from the market, or the **buying prices**, which are a form of manifestation of the *expenses* which they are forced to do in this respect.

The idea that the price of merchandise is the expression of the sacrifice needed in order to get it is also common to all the theories regarding prices.

Price – Expression of a Gain

An act of trade reflects not only the things sacrificed by the ones who take part at it, but also the things that every party receives after this act. It is true that the owner of the axe sacrifices his own merchandise, which he willingly agrees to give to the baker, but not for anything. In return, he receives another one (five loaves of bread), which motivates his deed. The same thing happens with the baker.

That is why, *the price of a merchandise is also the expression of the gain obtained by the one who trades it for one or mannier goods.* The gain can be a payment in kind (under the form of the merchandise which is going to be owned for good – or which could be owned, would it be the case of some other relations of trade) or in money (when the price would be its monetary expression).

It is obvious that this thesis *maintains its validity no matter which is the theory of prices to which we would hold by.*

With the interpretation of the expression of the gain, prices are also known as **cashd prices**, respectively **selling prices**, constituting a form of manifestation of the *revenues* obtained by the sellers after the act of trade.

¹ Mankiw, N. G.: *Principes de l'économie*, Economica, Paris, 1998, p.7

Coming back to the idea we have started from, we should point out the fact that, economically speaking, *a price is reasonable only if what is sacrificed by each participant in the act of trade is **compensated** by what is gained at its closure.*

Even if the expression, first of all, monetary, of the sacrifices and of the losses (which accompany the acts of trade) that prices receive has to do with their exterior layer, not to their essence, knowing these first two interpretations given to them is very useful in appreciating the exactness of the prices, offering us the first elements that come outside the debates that have appeared along time related to the theories of the value of work, utility and of equilibrium.

Both on the intern and on the international market, the acts of selling and buying take place at different prices, which can be organized according to different criteria²

Thus, according to the theory that explains their essence, there are:

- Prices as a monetary expression of the *work value* ;
- Utility – prices, based on the theory of *utility*;
- Entropic prices, underlain by the theory of the *entropic value*;
- Prices of equilibrium, based on the theory of the *equilibrium*.

These four categories of prices shall receive in this paper the greatest attention, our research wanting to prove exactly the convergence of the theories that explain their essence.

Regarding ***the way in which they react to the variation of the determining factors***, prices are divided into:

- *Variable* or *free* prices, which can change as soon as the parameters of the influencing factors are modified;
- *Fix* prices, which maintain (through the decisions of the people who can impose them) the same level on a longer period of time, regardless the way in which the production and the circulation of the merchandise is realised;
- *Semi-variable (limit)*, in the case of the ones where the persons entitled to make decisions in the domain of the prices have established not unique levels but just the limits up to which (or from which) they can rise (or fall).

Reported to the ***geographic area and the period of time*** when they are used, prices can be:

- *Unique*, which are available for the entire country and for the entire year;
- *Different*, which are established (by the decisive factors from the macro or microeconomic level) with different levels from one region to another or from one season to another.

According ***to the character of the economic circulation*** of the merchandise, prices can be classified into the following categories:

- *wholesale prices*, whose level is established through negotiations, involving in their structure the costs (recognized as necessary by the consumers), regular profit, the turnover tax and other taxes collected by the state. These are the prices for which the industrial goods circulate among the private and state investors, themselves being grouped in:

- wholesale prices afferent to the producing units*, which mark the end of the production process, covering the production costs, obtaining a normal profit and realizing the state's excises;

- wholesale prices of the wholesale units*, where the products are delivered to the companies in retail.

- *Retail prices*, applied to the goods and services that are given to the population, as well as applied to the goods delivered through the retail commerce network to

² Beju, V.: *Prețuri*, Editura Economică, București, 2000, p.24 - 37; T. Gherasim, M. Carauș: *Prețuri și tarife*, Editura Universitas, Chișinău, 1998, p. 76 - 80

private economic agents or to the state. The level of such a price comprises: the wholesale price, the declared trade markup (being meant to cover up the expenses needed by the selling of the goods and the providing of a normal profit for the firms) and the value added tax.

According to the **form of possession**, retail prices are divided into:

- *Public retail prices*, which are established by the government or by the institutions it has entitled for such an action, having an *unique* character, which means having the same level for all the merchandise of a certain type, or *limit* (the state only fixing the level up to which or from which they can raise), this type of prices being practiced by the autonomous administrations and by the state trading companies ;
- *Cooperatist prices*, practiced by the cooperatist trading units, comprising in their structure the wholesale prices, the trade markup of the cooperatist trading units, and, eventually, some other elements;
- *Prices that are free* on the market, resulted after the negotiations between economic agents and specified in the contracts they sign or even displayed on the merchandise which is advertised for /or exhibited for sale, the state not interfering in their formation (this is the type where all the prices fit in, nowadays);
- *Prices of the consignment commerce*, which comprise, in their structure, besides elements that are specific to all the other retail prices, also the commission taken by the consignment units.

According to the **territorial criteria**, prices are divided into:

- *Republican*, that have the same level in all the geographic areas of the country, thus being unique;
- *Local or regional* that is used only on the territory of a certain county or geographic region.

According to the **period of time when they are available**, prices are divided into the following categories:

- *Stable or permanent prices*, whose time variability is the longest. In this category we find the prices made by the state or by some private monopolies that aim at providing a certain economic stability;
- *Temporary prices*, which are valid for long periods of time that have been previously announced, after the expiration of which they are to be modified;
- *Seasonal prices*, which are given only to some merchandise, whose production or selling is seasonal, and which vary from one period of the year to another.

According to the **forms in which the sales are organized**, we can distinguish:

- *Negotiated prices*, which have levels that are established by means of negotiations, these being the most common among the economic agents, having the following most familiar forms:

- stock exchange prices*, used for the replaceable goods or for the stocks, the first of them being encountered even under the name of *exchange rates* or *quotations* and being established at short regular periods of time (even daily), on the basis of the request-offer report, and then published in special lists (broadcasted to all the other stock exchange offices in the world);

- auction prices*, practiced only in the case of certain categories of merchandise (except the stock exchange operations), which are offered simultaneously to a larger number of buyers, being effectively sold to the one who provides the price with the most advantageous level;

- transaction prices*, which are generally established through negotiations, for each transaction separately, through the agreement of the two parties, their range of usage covering everything from specific products, well individualized, to the ones that are

subject to stock exchange operations (case in which they shall stick between the stock exchange price), etc.

- *Prices resulted from agreements* (precursory accords) between companies (or even between states), agreements regarding, most of the times, a sum of commercial activities, materialized in:
 - contract prices*, in the case of some products that circulate on the basis of import-export relation respecting the bilateral agreements signed between the producing countries and the consuming ones;
 - cartel prices*, used by the economic units constituted in a cartel with different purposes, including the one of coordinating the actions that are set on the practiced prices;
 - agreement prices*, resulted after some conventions between the competing companies, etc³

According to their **destination**, prices can be:

- *Current*, comprising all the categories of actual prices used for the merchandise that circulates among producers, trading units and consumers;
- *Comparable or of calculation*, meaning prices with a special destination, being used in order to determine some economic indicators whose sizes do not have to be subject to the influences of the fluctuations that the actual prices undergo due to the action of several factors. Normally, they overlap the actual prices from a certain year, the statistics having special methods of transforming the real prices in such prices (comparable ones).

The way in which the value added tax is considered leads us to some other category of prices, namely:

- *VAT prices*, which are invoiced prices paid by the customers, in their structure comprising the VAT accumulated on the entire path followed by the products, from their state of raw material up to the final product;
- *Prices without VAT*, which normally are prices of the production factors that do not have the VAT, comprised in their structure. Eventhough they have no VAT, they can be the basis of the calculation of the VAT which is formed in their current stage. However, there will always be some other criteria to classify prices, different from the ones we have presented here.

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³Florescu, C. (coordonator): *Marketing*, Editura Didactică și Pedagogică, București, 1981, p. 285 - 286