**Cost-Plus Pricing.** Emerson Ventures is considering producing a new line of hang gliders. The company estimates that variable costs will be $325 per unit and fixed costs will be $330,000 per year.

***Required***

a. Emerson has a pricing policy that dictates that a product’s price must be equal to full cost plus 60 percent. To calculate full cost, Emerson must estimate the number of unites it will produce and sell in a year. Emerson estimates at the beginning of the year that they will sell 1,500 gliders and sets their price according to that sales and production volume. What is the price?

b. Right after the beginning of the year, the economy takes a dive and Emerson finds that demand for their gliders has fallen drastically; Emerson revises its sales and production estimate to just 1,000 gliders for the year. According to company policy, what price must they now set?

c. What is likely to happen to the number of gliders sold if Emerson follows company policy and raises the glider price to that calculated in part b?

d. Why is setting price by marking up cost inherently circular for a manufacturing firm?