

2. **Optimal Markup:** Mary Richards is a pricing manager of Caring Move, Inc., a local visiting nurse firm in the home care market. Richards has been asked to complete an analysis of profit margins for the firm. Unfortunately, her predecessor on this project was abruptly terminated, leaving only sketchy information on existing pricing practices.

A. Use the available data to complete the following table:

<i>Hours of Visiting Nurse Care per Day</i>	<i>Price</i>	<i>Marginal Cost of Service</i>	<i>Markup on Cost</i>	<i>Markup on Price</i>
1	\$20	\$13	53.8%	35.0%
2	35	26	--	--
3	50	--	28.2	--
4	65	--	--	20.0
5	--	65	23.1	--

- B. Calculate the optimal markup on cost and optimal markup on price for each service, based on the following estimates of the point price elasticity of demand:

<i>Hours of Visiting Nurse Care per Day</i>	<i>Price Elasticity of Demand, ϵ_P</i>	<i>Optimal Markup on Cost, MOC*</i>	<i>Optimal Markup on Price, MOP*</i>
1	-20.00		
2	-10.00		
3	-5.00		
4	-1.50		
5	-1.25		