

BUSINESS PRICING AND INFLATION

This book probes some of the theoretical and empirical aspects of inflation, focusing particularly on the determination of changes in output prices. It argues that the causes of inflation should be discussed within a framework which incorporates conflict over income shares. Firms aim for increases in profits, and workers for increases in real wages, and there is no strong reason to think that those increased claims are compatible. It is important also to discuss inflation in the context of a "credit money" economy, where banks loans and trade credit usually expand in line with increased demand for credit to finance higher expenditure, whether it arises from higher prices or higher outputs. This book places much emphasis on the distinction between competitive theories of pricing which stress the role of excess demand and expectations and the wide variety of theories of pricing and of firm behaviour which can be summarised in terms of price seen as a mark-up over costs. About half of the book is concerned with empirical work relevant to these issues, and draws heavily on an investigation by the author and his collaborators into pricing behaviour in British manufacturing industries over the period 1963 to 1975. After a review of the difficulties of testing excess demand theories, it presents much evidence which points to the empirical invalidity of this approach, and which has important implications for the monetarist approach to macroeconomics often built on the excess demand view. The examination of the mark-up approach to pricing generates support for that general approach, and indicates that changes in demand pressures and in labour costs are of little importance in the determination of price changes. The empirical work also illustrates substantial differences in pricing behaviour between industries, and thus casts doubt on an aggregative approach to price determination.

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Also by Malcolm C. Sawyer

**MACRO-ECONOMICS IN QUESTION
ECONOMICS OF INDUSTRIES AND FIRMS
THEORIES OF THE FIRM
BIG BUSINESS (*with Sam Aaronovitch*)**

BUSINESS PRICING AND INFLATION

Malcolm C. Sawyer

in collaboration with Sam Aaronovitch and
Peter Samson



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Preface

This book originated in a research project undertaken by Sam Aaronovitch and myself on price behaviour in British manufacturing industry over the period 1963 to 1975. In the early part of the project we were assisted by Sadick Johaadien who collected much of the data used. Peter Samson, as research associate, assembled further data, and undertook much of the vast amount of econometric estimation involved. He also contributed much to the general development of the research programme.

The ideas expressed in this book were subject to much discussion between Sam Aaronovitch, Peter Samson and myself, and in that sense this book represents the joint work of the three of us. It was decided, however, that in light of our current interests and activities that I should take responsibility for writing up the results of our research programme in the form of a book. The inputs of the other two are acknowledged by the inclusion of their names on the title-page. But, whilst they agree with the broad thrust of what is written, they do not necessarily agree in every detail.

We are grateful to the Social Science Research Council for financial support (under grant no. HR 4921/2) which enabled Peter Samson to be employed for two years as a research associate. I am grateful to Basil Blackwell Publishers Ltd, for permission to draw extensively on the joint paper with Sam Aaronovitch entitled "Price Change and Oligopoly" which appeared in the *Journal of Industrial Economics*, vol. 30, and to Chapman and Hall Ltd, for permission to draw extensively on the joint paper with Sam Aaronovitch and Peter Samson entitled "The Influence of Cost and Demand Changes on the Rate of Change of Prices" which appeared in *Applied Economics*, vol. 14.

M.C.S.