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TITLE: RE-VISITING FLEX PRICE THEORY - ANALYSIS OF CHANGING MARGINS IN DIFFERENT PHASES OF TRADE CYCLES

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ABSTRACT:

Hicks distinguished flex from fixed prices. Extensive research has been done on fixed prices. But behaviour of fixed prices in globalised economy seem to diverge from theoretical predictions. Stock clearance sales through retail outlets and fix price behaviour in recession appears to be different from expectation. Earlier researches show that 1) fix prices change with permanent change in cost, 2) demand does not affect these prices; Stocks absorb both excess and shortage of supply; 3) margins fluctuate with rise and fall in cost. Behaviour of margin in different phases of cycle needs research. We propose to investigate changing margins and their effect on prices in different phases of the cycle on the basis of the IO model. pi = bici The hypothesis is that the price is proportional to cost, bi is coefficient of proportionality, I = 1, 2, 3.............n. Cost is estimated from Input Output model. n ci =  pjaji+wli+IIi j=1 where aji are elements of column i of A. pj is price of jth input. li is labour coefficient and IIi is capital cost per unit of i. We shall estimate ci from IO tables of 1989,1994,1999,2004. We will compare these cost with observed prices in order to examine the changing value of bi. During the period of 15 year covered by the study there have been both recessionary and boom phases in Indian economy.