

WS: Wanchai snack shop

- a** I would not recommend that Mark raise the price of his fish balls by 25%. (1 mark)
This is because a 25% increase is not a small percentage and such a substantial price increase will greatly hamper students' intention to buy the fish balls again. (1 mark)
Also, various types of snacks (i.e., those offered by the nearby shops) are close substitutes of the fish balls. (1 mark)
If Mark increases the price by 25%, he may simply encourage his existing customers (i.e., students) to switch to other snack shops. (1 mark)
- b** Consumer demand: Price reflects how much consumers are willing to pay in exchange for the benefits of the product. (1 mark)
In this case, if consumers perceive that Mark's product is highly differentiated and delivers the desired benefits, they will be more willing to pay a higher price for it (i.e., less price-sensitive). This will give Mark more freedom to raise the price.
However, if they perceive that Mark's product offers nothing special or lacks the desired benefits, they will be less willing to pay a higher price for it (i.e., more price-sensitive). (2 marks)
Competitors' strategies: Companies need to take competitors' strategies (e.g., prices and products) into account when setting their prices. (1 mark)
In this case, if other competitors' snacks are much better or taste more delicious than Mark's, he will have less freedom to raise the price. Similarly, if their prices are similar or already lower than Mark's price, his freedom to raise the price will also be very limited. (2 marks)
- c** Mark is using line filling strategy. (1 mark)
This strategy helps provide more choices for existing consumers and thus helps keep competitors away. (2 marks)
This may also enable Mark to create additional incomes. (1 mark)
- d** Mark can increase the liquidity of his snack shop by increasing the working capital. Some methods are:
- Using long-term debt to buy inventory
 - Raising capital to repay a short-term loan
 - Selling fixed assets for cash
- (Any two of the above, 2 marks for each point)
(Any other reasonable answers)