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PREFACE

THE CONFERENCE ON PRICE RESEARCH, organized by the National Bureau of Economic Research and other institutions, set up in October 1938 a Committee to investigate the possibilities of empirical research in the field of cost-price relationships and price determination. This report, which is the Committee's first publication, is concerned principally with certain aspects of cost behavior. In subsequent reports the Committee expects to cultivate other parts of this field.

The Conference on Price Research has already published a series of studies designed to explore the opportunities for research in several industrial areas—coal, iron and steel, oil and textiles.¹ It is hoped that the work of these “exploratory committees” may now be supplemented by the reports of standing committees charged with the task of surveying somewhat larger areas from a different point of view. At the present time three such committees are co-operating in the research program of the Conference. They are concerned respectively with cost-price relationships and price determination, with governmental price regulation and with business price policies.

The mandate of the Committee on Cost-Price Relationships and Price Determination calls for study of the origin of price

¹ *Report of the Committee on Prices in the Bituminous Coal Industry* (National Bureau of Economic Research, 1938), *Price Research in the Steel and Petroleum Industries* (National Bureau of Economic Research, 1939), and *Textile Markets—Their Structure in Relation to Price Research* (National Bureau of Economic Research, 1939).

policies and pricing procedures, and of the processes of price determination. Its primary concern is with prices set through the enforcement of private business policy and by the play of competitive forces. Within this area the Committee is interested in the forces and conditions, both internal and external to the business enterprise, that determine prices, rather than with the consequences for the economy as a whole of price policy and behavior. Its central function, hence, is to study why prices are what they are, how prices are made, what role costs play in explaining them, what other factors (such as demand shifts and elasticity, substitute competition, structure of markets and other aspects of business environment) influence the setting of prices.

The immediate task of this Committee is to study the role played by costs in determining prices. In this study it is examining the kinds of information about costs possessed by businessmen, the way costs behave in response to changes in size of firm, rate of output and prices of input factors, and the relationships between cost behavior and observed price behavior. Since costs are only part of the explanation of decisions concerning prices, the Committee will be led eventually into an analysis of demand considerations, and of market structure and industrial characteristics conditioning prices and determining the range of administrative discretion.²

This mandate formulated by the Conference on Price Research is interpreted by the Committee on Price Determination to require in the present report (1) an examination of the available material relevant to the behavior of costs and the relation of costs to prices; (2) an appraisal of existing studies of cost behavior and cost-price relationships; and (3) a discussion of research methods which seem appropriate to the problems in this field.

Obviously in an area as broad as this, and with material of such diversity, the Committee has been compelled both

² Statement by the Executive Committee of the Conference on Price Research.

to select and to simplify. The focus of attention has been on cost and price adjustments within individual firms. The kinds of cost-price problems studied and the particular firms and industries discussed have been determined largely by the availability of material. Consequently the findings of this report cannot be regarded as either comprehensive or typical. They are, however, illustrative of some important types of cost behavior and cost-price relationships in certain important sectors of the economy.

The work of the Committee has been furthered substantially by Professor Joel Dean of the University of Chicago, who formulated research problems and prepared memoranda on research techniques, and by Dr. John T. Dunlop of Harvard University, to whom the original draft of a large section of the report is to be credited. Dr. Roswell H. Whitman of R. H. Macy and Company contributed the chapter on "Selling Costs." Mr. Caleb A. Smith, Teaching Fellow and Tutor in Economics at Harvard University, has been of great assistance not only in the collection of material but in the preparation of the manuscript. Appendix A on "Cost Surveys by the Federal Government" was prepared by Mr. Mark Massel in connection with his work for the Bureau of Research and Statistics of the Office of Production Management. Appendix B on "Cost Accounting and Price Determination in the Soviet Union" was written by Mr. Paul Baran, formerly a graduate student in Economics at Harvard University. Appendix C on "The Replacement of Depreciable Assets" is the work of Mr. Caleb A. Smith. The Committee is indebted to Thor Hultgren, of the Research Staff of the National Bureau of Economic Research, for his critical reading of the manuscript and his constructive suggestions; to H. Irving Forman for drawing the charts; and to Bettina Sinclair for editing the report and supervising its publication. The manuscript of this study was finished in substantially its present form in the spring of 1941.

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