THE PRICE SYSTEM IN ROMANIAN MARKET ECONOMY

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ABSTRACT

The liberalization of the price in our country led in most cases to price increases because of significant causes: the supply is far bellow the demand, competition among producers can not manifest because of lack of supply and economic agents, companies do not work to production capacity, productivity is low and the costs are high. Obsolescence of technologies didn't allow a high production, price reduction of raw materials and energy at the world price level and subvention elimination.

Keywords: *price system, supply, demand, price analysis.*

1. INTRODUCTION

The main objectives of the pricing analysis and the cost reduction analysis are: eliminating unrealistic costs; the use of consumption norms for raw materials; materials shall be reviewed in accordance with the degree of processing, labor determination on labor standards, cost coverage is provided by analyzing the possibility of exploiting to a maximum the internal reserves and cost reflection of truly necessary spending; price documentation involves price offers that must be substantiated by detailed economic calculations; during the crisis period, when demand is weak and prices affect inflation, legal regulations are necessary concerning: control on real prices established by the producers, compliance with competition loyalty, efficient use of financial, human and material resources and ensuring market transparency.

The price system created in Romanian market economy has the specific features of a competitive economy. Currently, the price system includes:

- Free prices formed by the demand - supply mechanism, under competition conditions.
- Regulated prices set by national regulators or by the Ministry of Finance.

Free prices represent the rule, while the regulated prices represent the exception.

Inflation, as a monetary phenomenon, is an excess of monetary mass compared to the quantity of goods and services that provide its coverage.

Indicators that measure inflation are: the general price index as a result of rapid grow of prices, the degree of erosion of the national currency against the freely convertible currencies, and the ratio of monetary mass and gross domestic product.

2. PRICE LIBERALIZATION IN ROMANIA

One of the fundamental features of the market economy is the free price formation.

Price liberalization involves the following problems:

A. Dysfunctions elimination in the field of price:

- the administrative nature of pricing
- existence of monopoly producers which generate imbalances between supply and demand
- widespread shortages of goods
- grants implementation for some businesses
- dependence on world market economy

B. Removal of the anachronism created in the functioning of the price mechanism: prices reflected higher costs of raw materials, energy, labor, inefficient technologies, etc.

C. Reflecting the value process of formation and distribution of income in the economy through price expression, the connection between price and the financial system. There are prices with no connection to normal costs, rates of profitability without any connection to determining factors (capital, interest, etc.).

D. Connecting internal price developments in worldwide prices - the traditional Romanian Market Economy function involved the abrogation of price system inherited based on excessive planning mechanism and state monopoly.

Some concrete measures were taken and the most important are:

- Increasing and guaranteeing the shrinkage and purchase price movement of agricultural products directly from the manufacturers to the state fund;
- Changes in the tax system, tax regulations;
- Regulating the competition discipline and competitors loyalty;
- Preparation, organization, supervision and control of price formation in order to avoid tax evasion;
- Liberalization of wages

Price liberalization in our country led in most cases to price increases because:

- Supply is well below demand;
- Competition between producers can not occur because of lack of supply and economic agents
- The enterprise is not working on production capacity, productivity is low, and costs are high;
- Obsolescence of technology did not allow the realization of a high production
- Bringing the price of raw materials and energy to the world price and eliminating the subsidies.

Basic requirements for free prices functioning are:

1. increase and stabilization concerning production at such a level in order to ensure consumer needs and the balance between supply and demand;

2. restructuring and restricting producer monopoly, diversifying the economic agents

3. creating a monetary and financial mechanism to adjust the economic and monetary processes and prevent pressure on prices;

4. establishment of the RON exchange rate at a level in the economy

5. reduction of direct state intervention in the economy

6. generating a market mechanisms for goods and services, capital and labor and create conditions for their well-function.

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There are two main structures:

- Prices for goods and services that include production factor prices;
- Special prices that include interest, wages, land prices, etc..

The following price categories are defined:

1. Wholesale prices of industrial products, where:

- price is determined by negotiation;

- price includes evolution of production costs and producer profit.

2. *Shrinkage price and the purchase price at which the agricultural products are both for the state fund provides cover production costs and a profit margin;*

3. Selling price of agricultural products:

- are prices that deliver agricultural products to economic agents from the state fund;

- include purchase price and commission for the companies from which they were acquired.

4. Price of imported goods are set as such or formed on the external prices in foreign currency at the exchange rate in force, plus customs duties, excise duties, VAT and commission conducting import and export enterprise;

5. Prices for export products include expenses for the production, preparation and transportation to the border and the export company commission;

6. Estimate prices are used to determine the price of construction - installation and repair;

7. Retail price:

- is used for selling products to the public;

- includes: wholesale price (purchase), negotiated trade margins (covers expenses and profit service for the business unit), the addition wholesaler, if goods are purchased at wholesale deposits, VAT;

8. Rates: are prices for services provided by economic agents and fixed by general rules of price formation.

On the whole the prices and tariffs of the price categories above can be represented as:

1. Market Prices:

- Are established by contracts between companies and are available for all displayed goods for sale;

- They represent the largest share of the price.

2. Fixed prices are set by the government or by the authorized bodies;

3. Limit prices are:

a. maximum prices

• applied to products of great importance for the public, the price is strictly correlated with the amount of people;

• attractive price capping subsidized by the state, these prices are below equilibrium price.

b. prices to the minimum:

• under these prices transactions pricing is not allowed;

• apply in countries where the government protects certain sectors in which the state is involved in the organization of markets;

• is above the equilibrium price.

Limit fixed prices appear as an exception to the general rule of pricing and covers the following situations:

1. prices of basic economic resources for which a policy of protection and rational use is promoted;

2. prices to some strategic products for the national economy;

3. prices and tariffs for production that are and temporarily subsidized by the state;

4. prices of those products that make the object of the delivery tasks set by the government or by the bodies empowered by negotiation with traders.

3. PRICE FORMATION MECHANISM - WHOLESALE PRICING FROM THE MANUFACTURER OR IMPORTER

Wholesale prices are prices set in the commercial transactions between economic agents. Those are free negotiable prices and their level and structure are formed in the context of legal regulations as follows:

a. basic raw materials, fuel, energy and major natural resources. Wholesale prices are established to the world prices level according to:

- The tendency during external price developments;

- Changes in the supply and demand structure, exchange rate, the results of negotiations with traders.

The Formula:

$$WP1 = WP2,$$

where:

WP1 is the wholesale price;

WP2 is world price.

b. raw materials, parts, equipment, installations for the production and prices of imported investment is calculated by the relation:

PR = [(PEFFR + CTA + CID + TV + MI] + VAT

PE = price-free external boundary – Romanian
CTA = external costs of transport and insurance
CID = expenditure loading – unloading
CV = exchange rate in USD or USD
TV = import duty
MI = margin business social import

c. for all categories of products, works and services prices are set by the equation:
1. if it has no excise duty:

PR = PP + VAT

where: PP is the producer price
2. if there are excises

PR = PP + Excise + VAT

4. MARKETING PRICING

The market prices contain two kinds of prices:

a. wholesale price that applys to selling goods in large quantities by specialized companies selling wholesale products and that is formed by the relationship (excluding VAT):

PG = PR + ACG + VAT
PG = wholesale price;
ACG = markup of the wholesaler;
PR = wholesale price

b retail price is formed:

- If business unit sourcing directly from wholesale companies excluding VAT:

PA = PG + ACA + VAT

PA = retail price;
WCA = commercial addition.

- If direct supply from the manufacturer:

PA = PR (excluding VAT) + ACA + VAT

- Trade margin appears as a separate item in the trading price and is free set by traders who establish the selling price.

Inflation, as a monetary phenomenon, is an excess of monetary mass compared to the quantity of goods and services that provide its coverage.

Indicators that measure inflation are: the general price index as a result of rapid grow of prices, the degree of erosion of the national currency against the freely convertible currencies, and the ratio of monetary mass and gross domestic product.

While money supply increases the volume of goods and services created remains unchanged or increases more slowly. This ratio is expressed through prices.

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The national economy must be carried out by the following equality:

National value = amount distributed income;
Goods and services = prices and tariffs.

In the analysis of inflation one may see a price increase, without increases at the physical economic level nor at the purchase quantities. Also, an increase in goods prices and tariffs increases the national value of goods and services and namely the amount of revenues that are formed from different types of individuals and legal persons, even if the quantities of goods and services produced in a given period remains unchanged. This mutual concatenation of prices and income is called inflationary spiral. The following significant cases are distinguished:

- An increase in social tax obligations. This leads to higher prices;
- Growth of the import prices of raw materials also leads to costs increase. This activates the inflationary spiral;
- Excessive growth of the budget deficit or credit excess in the economy also activates the inflationary spiral.

In order to stop inflation the following four strategies are used:

1. Blocking the price:
   - is suppressed by higher prices and inflation;
   - can be a long process;
   - may lead to price changes through the renewal of assortment in order to ensure earnings growth.
2. Blockage of revenue and expenditure, which means freezing wages and prices;
3. Currency blockage;
4. Blocking public spending by blocking taxes and social contributions.

To analyze inflation productivity envisaged the following prerequisites should be met:

- The price depends on the ratio between wages and labor productivity;
- An increase in labor productivity offsets wage as a cost element.

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