**Module Overview**

**Transfer Pricing Policies**

The fundamental objective in setting transfer prices is to motivate managers to act in the **best interests of the organization, and not just their division**. A good transfer price is one that encourages division managers to do whatever is in the **best interest of the entire organization**.

There are **three primary approaches**to setting transfer prices, namely (1) negotiated transfer prices, (2) transfers at market price transfers, and (3) transfers at cost (or cost plus set profit) to the selling division.

The objectives of **domestic**transfer pricing include:

* Creating greater divisional autonomy.
* Providing greater motivation for managers.
* Enabling better performance evaluation.
* Establishing better goal congruence.

The objectives of **international**transfer pricing include:

* Lowering taxes, duties, and tariffs.
* Lowering foreign exchange risks.
* Improving competitive position.
* Improving relations with foreign governments