Good microeconomics report example

Economics, Microeconomics

Introduction

In every market system, two key players are involved; buyers and sellers. Buyers purchase products at their willingness and ability while the seller supplies the products and services to the market at their willing price and ability to the market. (Kumra, 2007)

The market system is defined by the forces of demand and supply. Demand is the capability of a consumer to purchase products at the prevailing price within a given period . Supply is the ability and willingness of a seller to produce and supply products and services to the market at the prevailing price at a given period. When demand and supply forces interrelate, equilibrium price and quantity is created. (Depken, 2006).

Besides price factor, other factors of demand and supply help in determining the direction that supply and demand take. One of the forces that act on both sides is the government’s to stabilize the market and shield both the supplier and the consumer from exploitation by either party. (Pindyck & Rubinfeld, 2001).

Laws of demand and supply

Law of demand states that, all other factors held constant, demand of a product will increase if the price charged to product or service decreases and the opposite is true. However, this law applies depending on the good. (Depken, 2006).

Law of supply states that, all factors held constant, supply of a good or service to the market will increase if the market price of a good increases . The opposite is true when price of a product decreases.(Sharma, 2010).

Article analysis: Consumer Behavior and Opportunities for Nokia smart-phones in India.

Introduction

In the recent years, technology has advanced at a rapid rate and influenced almost every sector in the economy. Communication gadgets have advanced in both their manner of operation and the application accessories. Several companies have ventured into the market including Nokia, Samsung, Motorola LG, Blackberry and others. (Patel, 2014).

Nokia had been the undisputed player in the phone industry globally, until 2008 when the market was infiltrated by other competitors who brought advanced products into the market. By 2008, Nokia had 72% market share in India and 40% across the globe. In the latest statistics, Nokia market share has reduced to as low as 23% and 20% across the globe and India respectively. Nokia re-invented itself by launching Nokia Lumia, a smart-phone that recorded over 10million gadgets in 2012. (Patel, 2014).

Analysis

Economic theory and concepts

The major economic theory and concepts that will feature in this analysis is the interaction of forces of demand and supply and other factors besides price as the key determining factor of equilibrium market price and quantity. It will revolve around the responsiveness of Nokia smart-hones demand to change in price of own product, change in price of substitutes income of the consumers. (Patel, 2014).

Major determinants of demand of Nokia smart-phones

The main competitors in the Indian communication industry are Samsung and Apple whose products vary with the easiness to functionality.

(Patel, 2014).

Price of Nokia Smart phones

When Nokia launched its Nokia Lumia, other competitors’ products were selling at lower prices than them. Therefore, Nokia Lumia reacted along the law of demand where its demand decreased at high prices to the disadvantage of its rivals.

PriceD

D

Q0q1

Quantity of Nokia smart-phones

Tastes and preferences

Dual-SIM Phones

Until 2008, Nokia had not launched a dual- SIM-card phone, unlike its domestic rivals. This effect resulted in consumers shifting allegiance to local manufacturers for their phones that offered more accessories at affordable prices than Nokia phones. (Patel, 2014) According to Gupta, a research analyst, 39% of mobile phones sold in India between January and June 2008, were dual-SIM phones. This prompted them to launch their Dual-SIM phones called Nokia C2. (Patel, 2014).

Smart-Phones with Touch- screen

Nokia Company could not maintain its market pace to adopt manufacturing of smart-phones. Thus, Apple Company a chance to launch it smart-phone in 2007. Samsung also ventured into the market ahead of Nokia. Reluctance by Nokia management to introduce Smart-phones influenced users to trade-off their traditional phones with Samsung and Apple smart-phones due to price affordability and flexible applications (Patel, 2014).

Operating System

According to International Data Corporation (IDC), consumers in India preferred smart-phones with Android operating system to windows OS used by Nokia phones. This adversely affected the uptake of Nokia Lumia smart-phone in the Indian market and the world leading to a slow growth. Other operating systems are Symbian with 21% of the market share while Blackberry; IOS and windows phone occupying the rest. (Nielsen Infomate Mobile Insights Data). (Patel, 2014).

In general if substitutes have better products than others, demand for substitutes raises . For instance, demand for Apple and Samsung smart-phones increased due to their efficient use of Android Operating system. This is due to variations in tastes and preferences of consumers.

Price of Nokia Lumia d

d1

P

q1d

0q0d1

Quantity of Nokia Lumia demanded

Income

The Indian economy is rising at a reasonable rate that may result in an increase in consumers' wealth and thus increase their disposable income. Nokia Lumia behaves as a normal good where its quantity demanded increases with increased consumer's income.

Population

In India, youths between 18 and 24 years account for the highest population of smart-phones users in India. Youths are rational consumers whose tastes and preferences keep fluctuating rapidly. (Patel, 2014). Niensiel Infomate Mobile Insight Data (NIMD) statistics revealed that most youths preferred Android oriented phones to other smart-phones that use different operating systems. Nokia Lumia uses Windows application and, therefore, is susceptible to poor reception in the market. (Patel, 2014).

Determinants of Supply of Nokia Smart-phones

Entry of new rivals

Infiltration of Smart-phones producers in the market is likely to lower the market share for Nokia Lumia in India. Micromax, Lava and Karbon have advanced the features of their products besides their price adjustment strategy. (Patel, 2014). In addition, international rivals such as Samsung, Apple and recently re-emergence of Blackberry is likely to complicate market penetration of Nokia Lumia. Entry of rivals, who have substitute products, lowers the demand of Nokia Lumia on the Indian market.

Price of NokiaS1S0

Lumia

P0

Q1Q0

0Quantity supplied for Nokia Lumia

Availability of Substitutes

The main substitutes for Nokia Lumia in the smart-phone industry are Apple, Samsung and the recent entrant Blackberry. Samsung and Apple smart-phones are likely to hamper the uptake of Nokia Lumia due to their Android application that is favored by many youthful consumers. (Patel, 2014).

S1

S0

Price of Nokia

Lumia

P0

S1s0q0

Quantity supplied for Nokia Lumia

Technological change

Most smart-phone producers have adopted cost-effective applications that have enhanced efficiency to the smart-phone users. If other rivals adopt technological enhancements to make their products attractive, the demand of Nokia Lumia decreases. In order for Nokia to shield itself form costly technological changes, it could adopt a franchise process in the production of

Nokia Lumia to save on production costs. This may create room for reducing prices than their rivals

Elasticity of demand

Elasticity is the extent to which demand of a product respond due to change in its own price, price of substitutes and change in consumers' income or purchasing power. (Krugman & Wells, 2005).

Price of Nokia

Lumiad

P1

P0

Quantity demanded for other products (Samsung, Apple)

In the above diagram, if Nokia management decides increase its price, its demand will lower rapidly and its consumers will trade off their Nokia smart-phones for other smart-phones from rival companies.

Market Equilibrium

S0

Price of Nokia Lumia

S1

P0

d

Quantity demanded and supplied of Nokia

In a mixed economy, the government may intervene to control inflation and through price flooring or price ceiling. The above diagram indicates impact of infiltration of rival companies in the Smart-phone market. The supply of smart-phones will increase leading to a lower equilibrium price and a higher equilibrium quantity of smart-phones.

Conclusions and Recommendations

- Nokia management should adopt a new operating system such as Android system to eliminate the negative perception towards purchasing of Nokia Lumia.
- The management should conduct intensive physical and online marketing to educate existing and potential consumers on the unique features in the Nokia Lumia product and how they are applied to eliminate information asymmetry between the producer and the consumers
- In order to tap the youth market, the management could consider customization of products to suit the customers' tastes and preferences to attract and retain customers.
- The Indian government could introduce price ceiling i. e. the maximum price that any producer can charge for its products. Additionally, it could also set price floor i. e. the minimum price that a company can charge its products, to control deterrent of potential smart-phone producers from occupying the market.

In conclusion, Nokia has potential to tap significant market share equal than its rivals if only the company re-strategizes especially with its visionary mission to launch subsequent products of Nokia Lumia Brand In India and in the world.

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