

Essay on demand and supply in market

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Apple sells 48 million iPhones, but profit squeezed

Apple sales were elevating in the past quarter. Its revenue was at its peak. The company recorded the second highest quarterly profit of \$13.1 billion in 2012. After the launch of iPhone 5 its profits started declining. In 2013 after the launch of its model iPhone 5c sales started elevating but profit started deteriorating. The reason which supported this unexpected decline was that Apple demanded that same higher prices for its exorbitant product though it was manufactured using plastic like Samsung mobiles rather than aluminum which was incorporated in its previous model iPhone 4. Customers of Apple were ready to buy older models such as iPhone 4s or iPhone 4 for \$100 and \$200 less respectively instead of iPhone 5. Reduced selling price of older versions of iPhone resulted in decline of revenues by 38.6%. Prices of shares deteriorated by 11%. Similarly when iPad mini was launched its selling price also got devastated because of cheaper version of eight inch Tablet. Moreover sales of iMac slumped due to supply shortages and insufficiency to fulfil demand and therefore customers switched to iPad. Chief financial officer of Apple anticipated that company would make of \$41 billion to \$43 billion sales during the quarter and the gross margin would be from 37.5% to 38.5% but unfortunately both of those anticipations went far short forecasts of Wall Street analyst. Apple liked to set low targets that are easily attainable but then it changed its way of providing guidance which was previously a conservative outlook and conservative estimates. It now reflects

realistic targets what Apple can most probably achieve. Apple is trying to stabilize its position again.

The economic concepts which can be applied in this news are:

- Apple products are Normal goods:

Apple products such as iPhone, iPads, Tablets which are being discussed here are all considered to be Normal goods that is when consumer's income or purchasing power increases then the demand for such luxuries elevates.

- Application of Law of Demand:

When iPhone 5c demanded a higher price, quantity demanded of iPhone 5c declined that is consumers were not willing to buy iPhone 5c at the given price.

Quantity demanded for iPhone 4 and iPhone 4s elevated because their prices decreased by \$100 and \$200 respectively.

- Substitution Effect:

Apple demanded that same higher price for iPhone 5c. iPhone 5c was inferior in quality because it was made up of plastic rather than Aluminum just for the ease in production and therefore supplying product on time. Consumers shifted towards Samsung and cheaper versions of iPhone instead of buying latest and most updated iPhone 5c.

Same case happened with iPad mini. These were substituted by cheaper and affordable tablets.

- Shifts in the demand curve:

Because of inferior quality of iPhone 5c demand of iPhones shifted from higher quantity demanded to lower quantity demanded.

- Application of Law of Supply:

Apple charged higher price for iPhone 5c and provided efficient supply to the customers unlike iMacs.

- No existence of Market Equilibrium between demand and supply of iMacs :
Quantity demanded of iMacs was very large but Apple was unable to meet the consumers demand. There was shortage of iMacs in Apple retail stores because of underestimated forecasting.

Works Cited

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