

Apple iphone price elasticity of demand



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According to Wikipedia, price elasticity of demand is defined as the responsiveness of the quantity demanded of a good or service to a change in its price. Demand for a product can be said to be very inelastic if consumers will pay almost any price for the product, while demand for a product may be elastic if consumers will only pay a certain price, or a narrow range of prices, for the product. Inelastic demand means a producer can raise prices without much hurting demand for its product, and elastic demand means that consumers are sensitive to the price at which a product is sold and will not buy it if the price rises by what they consider too much.

Drinking water is a good example of a good that has inelastic characteristics - in that people will pay anything for it. On the other hand, demand for sugar is very elastic because as the price of sugar increases there are many substitutions, which consumers may switch to.

Apple, a name always mentioned the most in IT world. From ancient times to the Apple iPhone's time now. With personal experience (the iPod has been broken and his second cousin Mac used to broken-down broken.) is really very curious about the success of Apple.

Let start with the first Iphone 2g

The first iphone was launched on June 29, 2007. The early Iphone is a product and creative breakthroughs. On the other side, it is also expensive toys. Even too expensive. With the price \$599 and \$699 for the 4GB and 8 GB versions, the public view as long as the Iphone is quite limited. However it looks like Steve Jobs also soon realize this. Evidence is less than 2 months after the release date; Apple has suddenly reduced 8GB price down to \$399,

also announced to stop producing 4GB version. At this point, the iPhone's reputation has spread wider. Price is cheaper than the amount consumed should be improved significantly.

Move on to iPhone 3g

Apple store also realize their problems with the first iPhone and now they produce a new one 3G.

At this time the iPhone price has reduced, for iPhone 3g the 8GB version will sale only \$199, with a third compared with 4GB version year ago. And who needs a larger store would have to spend \$299 to own 16Gb version. Clearly, the new price attractive and more popular. It will make the iPhone more attractive unprecedented in the eyes of users, especially when economic conditions are quite overcast like today.

A year later, upgrade to the 3G demands becomes more urgent, as the increasingly dense web graphics and multimedia content. According to Apple ads, iPhone 3G speeds page load 2.8 times faster than before. And moreover the new iPhone will not "paste special" at US just like before, users in Europe, Asia, will also open more than pleased with this product.

Reason not to buy iPhone

iPhone 3G still tightly tied to AT&T: to purchase the iPhone 3G users must use contracted network services of AT&T from 2 consecutive years or more. And the iPhone 3G is only compatible only with AT&T iPhone 3G more expensive than the \$199: 199USD price advertising for iPhone 3G is really only imagining price for the user. That price applies only to those who accept contracted service with AT&T. Integrated whole, the price of the iPhone 3G

could sell up to 699 USD for the right price version of the iPhone 3G unlock. Totally, the iPhone 3G only cheap but not cheap for immediate long term. This can be considered a smart phone and high top expensive.

Supply

The reasons that Apple reduced the price are:

Due to the increased number of clients, the iPhone price has dropped from 599USD to 399USD for the iPhone 3G and 8G version and just only 199 \$ /units. Because the new version with advanced features and more modern also help to reduce the price of previous versions.

Because of the calculation of the supply and demand that Apple has reduced price strongly.

In addition of using the iPhone, customers also need to use Apple's iTunes service and that's why Apple are considering about the value of maintaining iTunes service.

Through Apple's iPhone product, as we can see, if we want to sell the product, manufacturers should not only reduce the price of products but also improve the service. But price is only reduced to a limit and cannot pass it because if overcome the limitations will affect the profitability of the company.

The price elasticity of Demand and Supply

According to Sloman (2007), price of elasticity of demand means the responsiveness of the quantity demand of good or service to change in its price. There are three main factors that influence a demand's price elasticity:

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The most important factor that influencing the elasticity of demand is the available of substitutes. In general, the more substitutes, the more elastic the demand will be. Unique product like iPhone usually is inelastic because there are no substitutes.

Amount of income available to spend on the good is the second factor that affecting demand elasticity. This mean to total a person can spend on a particular good or service. If the price increases while no change in the amount of income available, consumers typically reduce their quantity demand.

Finally, the third influential factor is time. If consumers have more time to adjust their behavior, elasticity will be greater over the long time.

In the case of iPhone, demand always high because of consumer's requests, so although the price is high, still Apple cannot supply enough for all.

Demand line will shift to right (D1 to D2)

Beside that, Apple also tries to provide enough supply for all customers, so the supply line will shift to right (S1 to S2). That was will happen in theory, however it is not going to happen in reality.

In fact, demand of iPhone just inelastic at the first time, because this is a unique phone with a lot of functions could attached audients at that time, that was lead to why the price was went too high but demand still increase. After three months, Apple was decreased the price, because of the affects of demand: pricing, ad-on services, and the rise of competitors in the marketplace. Apple was reducing the price of iPhone several times from <https://assignbuster.com/apple-iphone-price-elasticity-of-demandd/>

\$599 in 2007 to \$199 in 2009 (Apple. com). Demand decreased so demand line would shift to left. However, when the iPhone's price went down, consumers raised the demand of iPhone again, then the demand line was become flatter and more elastic, prices decreased but quantity demand increased. As demand is price elastic, a rise in price will lead to a reduction in total consumption on the phone and hence a reduction in the total revenue of producers.

About the supply, price elasticity of supply measures the relationship between changes in

quantity supplied and change in price (Sloman 2007). Factors may influence the elasticity of supply contain the possibility to switch to other products, the ability to drop out of business, or the ability to use other resource inputs and the amount of time available to react price change.

The chart above showed how demand and supply of iPhone performed in real-life.

At first, iPhone's demand curve was inelastic because of demand of customers (D1), high price (P1) for that phone at the beginning. After that, demand of iPhone became elastic so demand curve from D1 changed to D2; price fell from P1 to P2. Nevertheless, people still prefer to use iPhone, plus iPhone's price was also decreased a lot, and the debut of new generation of 3G and latest 3GS models, then demand of iPhone was growth again from D2 to D3. Yet, supply of iPhone is still inelastic because Apple could not produce more, so the price slightly went up from P2 to P3, quantity increased from Q2 to Q3.

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Overall, there are three factors affecting demand elasticity: the availability of substitutes, amount of income available to spend on the phone, and time.

With this case, we may actually notice a decrease in demand as pricing and iPhone services.

Market and Adjustment over Time

How do iPhone respond over the longer term to a change in demand and supply?

The full adjustment of price, demand and supply to a situation of disequilibrium will not be instantaneous. It is necessary, therefore, to analyse the time path which supply takes in responding to changes in demand, and which demand takes in responding to changes in supply.

Despite spending accounts subsidies estimated \$ 351 for each iPhone sold, telecom operators AT&T have forced customers signed contract for 2 years if you want to buy iPhones for \$ 199.

For example, iPhone users can go online with AT & T's 3G Internet (unless that unlocked) and must pay \$ 30 per month, and registration packages for the iPhone to charge incremental rates after 2 years up to \$ 720 enough for AT & T accounts leveled initial subsidies for devices with touch screens use this power.

Short run and long run adjustment

]Short Run: Some inputs variable, some fixed. New firms do not enter the industry, and existing firms do not exit.

Long Run: All inputs variable, firms can enter and exit the market place.

According to recent report by Yankee Group, because bearing the cost support Apple, AT & T company can not even cut up the network with customers using various transmission line until pass month 17th in the contract. In return, only to record it fare \$ 2 billion for AT & T after every 2 years.

Price expectations and speculation

People's action is influenced by their expectation. People respond not just to what is happening now (such as a change in price) but also to what they anticipate will happen in the future. Understanding the crucial role that expectations play in determining economic behavior makes this a threshold concept the ninth of our fifteen.

So, Apple will be " offering the most attractive price. To be able to build a battle of price, company need: pricing strategy must be consistent with strategic objectives of the company. This is required of fixing the price. Analyzing customer competitors, the economic situation must be done seriously and objectively is the most.

Update market fluctuations, competitive power to have according pricing strategy.

Continuous measurement fluctuation sales, purchasing power and level of pay, satisfaction of customers after each round of price adjustment to the strategy accordingly. This strategy discounts are always given the fluctuations of the market and apple always have high sales even discounts.

Conclusion

Even the price of the iphone still high and lack of performance. However the demand of using iphone is elasticity due to Iphone attract users in the design impressive. Not many features but the iphone gives users a new in design, the touch screen and the user interface.

The beauty is something that everyone wanted towards. Iphone customers were due to smoking point.