

Microsoft windows operating system



Microsoft Windows Operating System Microsoft Windows is a family of operating systems by Microsoft for use basically on personal computers, but it has been successfully proved since the first version of Windows that they can run on several types of platforms such as servers and embedded devices. First introduced in November 1985 as an add-on to MS-DOS, this operating system has grown from strength to strength having different variants till Windows XP and XP-Pro. Now the world is waiting for Windows Vista which is to be launched by January, 2007. Business economics tell us that a perfectly competitive market has the following characteristics:

There are many buyers and sellers in the market.

The goods offered by the various sellers are largely the same.

Firms can freely enter or exit the market.

But in case of Microsoft operating the market is totally dominated by Microsoft. Based solely on market share, Microsoft appears to have a near-monopoly in operating systems for personal computers yet Microsoft priced the Windows OS very smartly and kept it at bare minimum and thus succeeded in capturing in the market. The law of demand tells us that as the price of a commodity falls, the quantity demanded increases and vice-versa. But the law is silent on the extent of increase in demand as a result of decrease in certain percentage of prices. That means the law of demand tells us only the direction of change, but not the rate which the change takes place. To know about the rate of change we should know the 'price elasticity of demand'. Elasticity of demand can be defined as the " degree of responsiveness of quantity demanded to a change in price." It thus represents the rate of change in the quantity demanded due to a change in price.

The price elasticity,

$$ep = (\text{Proportionate change in the quantity demanded}) / (\text{Proportionate change in price})$$

Now in case of Microsoft it can be said that, if we treat PCs as a single homogeneous commodity, then Microsoft's pricing of Windows was 'not' consistent with its status of a monopoly over personal computer (PC) operating systems. Therefore Microsoft started with such penetrative pricing that consumers had no option but to go for it. The company priced Windows as low as it can because of several types of substitution;

The substitution of other devices for personal computers.

The substitution of personal computers that are not Intel-compatible for those that are compatible.

The substitution of other operating systems for Windows on Intel-compatible computers.

Continued use of existing computers (and their operating systems) by users

Foregoing the purchase of new units (with new operating systems)

Piracy of Microsoft's operating systems.

In this volatile market era when charges and counter charge are being labeled on Microsoft, it can be said the company's prices are consistent with its facing a high Elasticity of Demand.

For the fiscal year ending June 30, 2006 Microsoft recorded net revenue of \$44. 28Billion, registering a growth of 11% with net income totaling \$12.

60B. But the overall growth was a meager 3%, a miniscule figure as compared to the growth rate for the corresponding period ending June 2005.

One potential reason for this low growth rate could be that Microsoft did not announce any new variant this year. The product, i. e. the Operating System

<https://assignbuster.com/microsoft-windows-operating-system/>

is such a product which the consumer feels like updating whenever a new variant is around. This tendency will never allow the demand for OS to die-down i. e. the demand will remain there. In economics, economic equilibrium or market equilibrium is defined as a condition when the market " saturates" or " clears": which happens when the market for a product attains the price where the amount supplied of a certain product equals the quantity demanded. But in case of the operating system this condition doesn't seem to be arising in the near future, for the want of regular updation by the consumer and the rapid advancements taking place in the technology field.

References:

1. Microsoft, available online at [http://www. microsoft. com/](http://www.microsoft.com/)
2. Werden G. J., Microsoft's Pricing of Windows and the Economics of Derived Demand Monopoly, Review of Industrial Organization, Volume 18, Number 3, May 2001, pp. 257-262(6)
3. USA, Department of Justice, " Complaint," United States of America v. Microsoft , 18 May 1998, p. 1.