

MANAGEMENT ECONOMICS

Assessment 1

MARINELA ANDREICA

Module code: **LCBB5003**
LECTURER: Taye Osadiya

Table of Contents

.....	3
TASK	3
Describe business as well as its key product.....	3
Define demand and market equilibrium and its impact on increase or decrease in the demand due to various segments.	4
Impact on price elasticity and the factors which indicate if demand is more elastic or more inelastic?	7
CONCLUSION	9
REFERENCES	10

INTRODUCTION

Management Economics can be defined as economics of business, which is applied for microeconomic analyses of direct methods of the enterprises as well as of the other management segments for assisting the managers so that they can take multifaceted business decisions (Bhattacharyya and et.al., 2021). Economics it also means “household management” that is head that manages other family members with the limited income, when broke up in parts society could be “the family” addressing infinite desires of limited resources. Economics is sometimes seen as the study of how humanity organise itself to deal with basic scarcity problems.(T. Osadiya, 2023)

TASK

Describe business as well as its key product.

Apple incorporation is one of the leading business enterprises in the electronic industry that runs different business lines such as consumer electronics, virtual services and computer software. The company was started in year 1976 and it was the first enterprise that has surpassed \$1trillion in the segment of market capitalisation in the year 2018 (Davidson, 2023). It shows the growth in profits, share prices as well as in profits scale.The handsets that are manufactured by the Apple which uses its own software IOS operating system. It was first launched phone with multi touch advanced technology and comes under the luxury products. it has many competitors like Samsung, etc.

I choose the iPhone because it is the most popular product of Apple as well as a well-known brand in the technology sector. The iPhone also has a significant impact on Apple's overall revenue and profitability. (Davidson, 2023). All the key elements of economics will be defined easily. As it has large market coverage with plenty of customers. With the making of expenditures on the research about the consumer’s research and studying the economic business environment, it enhances its sales and profit consistently. Indicators that influence the market of Apple are substitutes, complement, income of consumer, demographics, expected price that can be paid by consumer for product or services availed to them. This impacts the demand that it will rise or fall. As it is one of the luxury products so only the customers with the huge incomes will afford this and simultaneously if there is decrease in their income then the sale will be reduced. This will ultimately result in rise in the demand of substitutes products. Apple gives the products with the best services so it is preferred by the consumers even with its high price. (Davidson, 2023).

Define demand and market equilibrium and its impact on increase or decrease in the demand due to various segments.

Demand is the quantity of a good or services that consumers are willing and able to buy at a given price at a particular period of time. (Osadiya,2023) . The factors that affect the demand of consumers are price of the product, income of consumers, expectations of consumers, tastes and preferences of consumers, quantity of consumers, availability of substitute products, price of the related goods as well as wages and levels of employment (Ray, and Vatan, 2013). If the price of goods and services increases then the demand decreases. Market equilibrium refers to a state in the market in which the demand of the products is equal to the supply of product due to which the prices of products and services become stable. The demand of Apple iPhone product is affected by many factors, which are as follows-

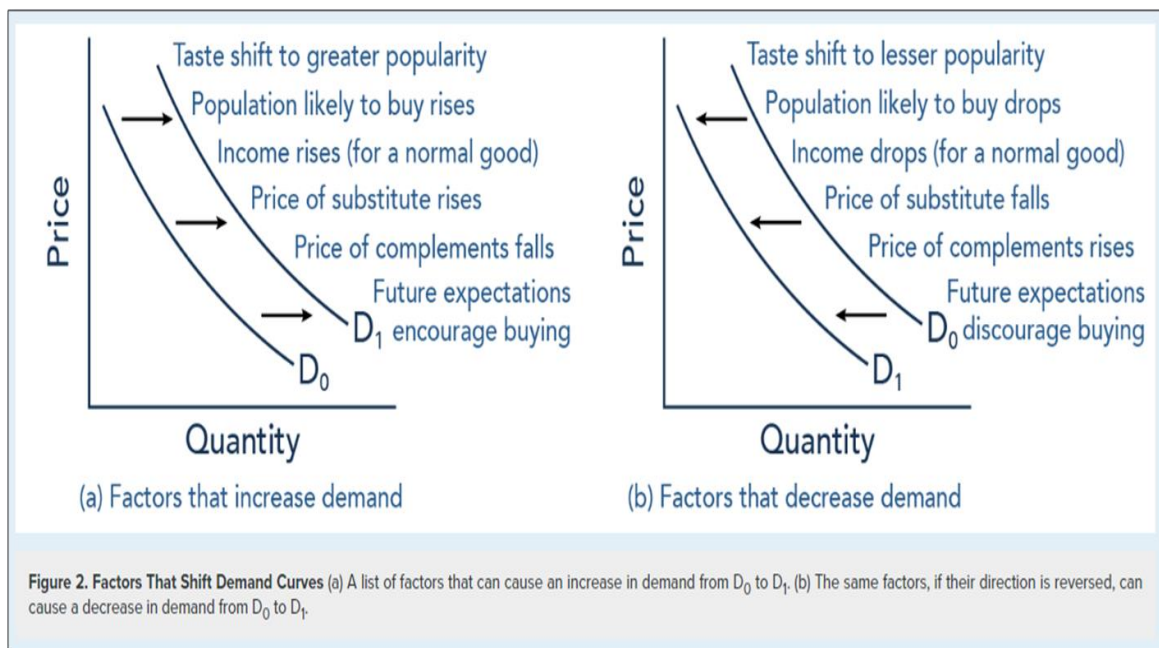


Figure- (factors that impact the demand of the product)

- Price of substitutes – In terms of economics, a substitute good refers to a service or a good, which can be utilised in place of another product or service (Coe and et.al., 2019). The substitute good of Apple iPhone is One Plus, which deals in Android smartphones, wireless earbuds and smart watches. When the price of One Plus is going up th demand of product is going down (Wiesböck and Hess, 2020). This helps the demand of Apple brand, as the

demand of Apple products will increase due to a decline in the demand of One plus products.

- Prices of complements – In terms of economics, complement or complementary goods refers to the goods or products, which are consumed or used together and joined in demand. (Gibbert and et.al., 2023). The complements of Apple iPhone are Samsung, which manufactures or produces electronic devices and is one of the largest company in the world. It deals in products like android phones, wireless earphones, etc. With an increase in the prices of Samsung products, its demand is decreasing. As the price of a Samsung complements decreases, consumers may be less likely to purchase an apple product, leading to a increase in demand (Vergara, 2012).
- Consumer Income – Consumer income refers to the money, which is earned by the consumers or customers for either investment or work like dividends to the shareholders, income or profit earned from sale of an asset like building or house. In the case of inferior goods. . The fact that spendings of the consumers is decreasing in UK, which means the income of the customers or consumers is decreasing in the country due to which they spend less. This affects the demand of Apple products, in UK, as its demand of Apple products will decrease as per sales of iPhone in the three months to end of the year has dropped 5% if compared to 2021 year. (News, 2023)
- Consumers tastes and preferences – Preferences and tastes refers to a definite characteristic that the consumers want to have in a service or product to make it preferable to them. It could be anything like level of satisfaction, level of happiness or product utility. Tastes and preferences directly affect the demand of products or services. The factors that should be considered while thinking about the tastes and preferences of consumers such as location of consumers, the age of consumers, opinion of the public and social precedents, etc. The buyers of Apple iPhone are located in the whole world, which means the consumers of Apple iPhone are around the whole world. Apple products are used by both males as well as females (Indeed Editorial Team, 2022). Mostly, the people under an age group of 25 to 34 use Apple products. The Apple iPhone allows people to know the information or data

with the help of digital media which available on the phones . Apple iPhone helps the users to get all the necessities done in a single device and can be also used for the purpose of business (Kasulaitis, Babbitt, and Krock, 2019). Consumer tastes and preferences can have a significant impact on demand as it .

- Price expectations of consumers – Consumer expectations in economic activity will be heavily influenced by expectations. People will be willing to borrow and buy items if they expect the economy to improve. However, if they have low expectations, they are going to cut back on spending and be more averse to risk, expectations can also have an impact on the impact of a government action. (Tejvan Pettinger, 2017) The consumers also have some expectations related to the price of Apple products. The consumers want that the prices of Apple products should be low so that most of them could afford an Apple product at a reasonable price and also an innovative product. The consumers expect that the prices of the products should decrease which will increase the demand of the products by apple company. Consumer expectations of future prices can impact current demand. If consumers expect a price increase in the near future, they may purchase an iPhone now, leading to an increase in demand.
- Demographics or the Number of Buyers – Demographics refers to the statistics which describes or express the populations as well as characteristics of it. It is the study of factors that are based on the population like race, age, gender, income and many other factors (Shammout, D'Alessandro, Small, and Nayeem, 2022). Most of the population in the United Kingdom use or utilise the Apple products such as iPhones, mac book and many other. Apple company has sold over 2.24 billion units of iPhone to date. At present, 40.4% of consumers use iPhones in the UK that is there are 19.7 million people use smartphones in the UK. The number of buyers of Apple products in the market are increasing. This affects the demand of the Apple products which means the demand of the products of Apple in the market of the United Kingdom will increase. The number of buyers in the market can impact demand. As the population grows, there may be an increase in demand for iPhones.

Impact on price elasticity and the factors which indicate if demand is more elastic or more inelastic?

There are various factors that affect the demand elasticity regarding the products or services and factors such as income levels, price levels, substitute products, etc. As the considered product is highly priced, therefore if its price reduces then its demand will be enhanced. Elasticity of the luxury items is highly elastic (Anderson, et. al., 1997). More impact on the elasticity of demand is discussed below.

- Income elasticity- Luxury goods which is taken that is iPhone has positive elasticity which values for more than 1 or $IE > 1$. This shows that when the income increases then the demand of the product rises. For example, if the income of the consumer enhances by 5 percent then demanded quantity will be enhanced by more than 5 percent. Elasticity of the income examines the impact on demanded quantity with the variation in the level of income of individual. The cost of an iPhone represents an important percentage of a consumer's income (Donzé., and Katsumata.,2022). This indicates that demand for the iPhone is more elastic since customers may be more likely to switch to a less expensive alternative if the price rises up.

Income elasticity of demand (IE) = Percentage change in demanded quantity of (iPhone) products / percentage vary in the income of customer.

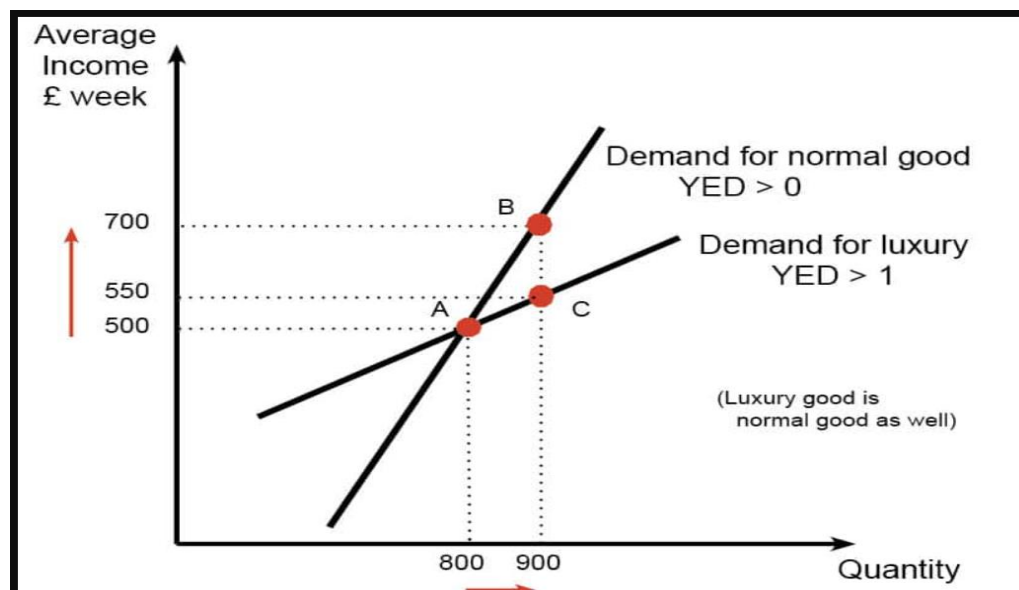
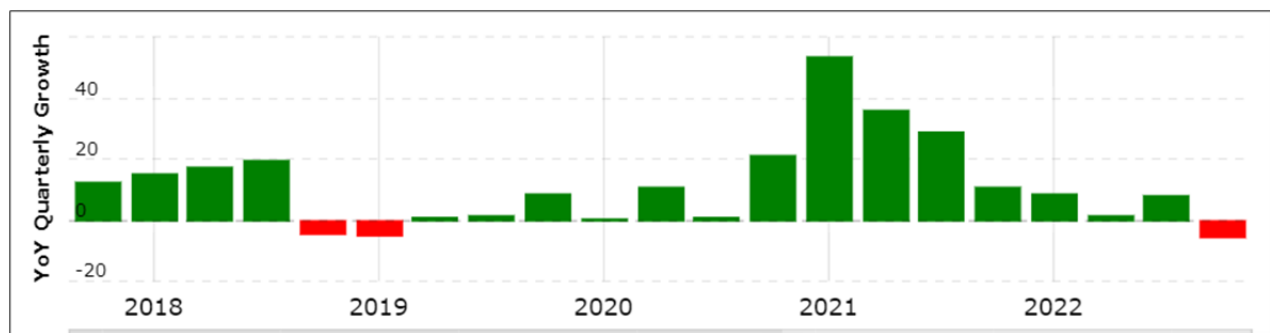


Figure- (YED = elasticity of demand)

- Substitution effects - Luxury vs. Necessity: From the consumer's point of view, the iPhone can be considered a luxury item. This means that the demand for the iPhone is more elastic, as consumers may be more likely to switch to a cheaper alternative if the price increases. The demand will be less elastic or more inelastic when the product's necessity increases because there are less substitutes available. Demand will be more elastic as a product becomes more luxurious. In the case of an iPhone, some consumers may view it as a luxury item, while others may view it as a necessity. Therefore, the demand for an iPhone could be either elastic or inelastic. For example, if the price of an iPhone increases, consumers may switch to Android phones. The demand for iPhone, therefore, is more elastic.

Given the analysis, the pricing policy for Apple should depend on the target market (Fischer, Staffieri, and O'Rourke, 2008). If the target market for the iPhone is high-income consumers who view it as a luxury item, the pricing policy could be more inelastic. Apple could increase the price of the iPhone, as consumers in this market are less likely to switch to substitutes (Thao, and Tsanthaiwo, 2017). On the other hand, if the target market for the iPhone is low-income consumers who view it as a necessity, the pricing policy could be more elastic. Apple may need to keep the price of the iPhone lower or offer discounts to attract these consumers. And with the use of the data of past 5 years, Statistics of Apple's annual/quarterly revenue and growth rate between 2010 and 2022. Revenue is the sum of money that a business generates from consumers in exchange for the sale of goods or services.



Graph – (shows the revenue earned by the Apple incorporation in last five years)

- Apple's quarterly sales of \$117.154 billion, a 5.48% year-over-year reduction, was reported on December 31, 2022.
- Apple's revenue for the year ending December 31, 2022, was \$387.537Billion, up 2.44% from the previous year.
- A 7.79% growth from 2021 to 2022, Apple's annual revenue was \$394.328Billion.
- 2021 saw a 33.26% growth in Apple's annual sales to \$365.817B.
- 2020 saw a 5.51% growth in Apple's annual sales to \$274.515 billion.

CONCLUSION

It has been concluded from the above that iPhone is one of Apple's most important products, and its success has a significant impact on the company's financial performance. In the recent years, Apple's iPhone has attracted large number of customers with its product which highlights its importance in the electronic market. Therefore, it makes sense to analyse the factors that influence demand and price elasticity for the iPhone. The main segments are like substitute products, complementary goods, income of the individuals, etc. Even being the luxury product, with its unique product specifications, it became popular and demanded in the consumer electronic market.

REFERENCES

Books and Journals

Bhattacharyya, P., Bisen, J., Bhaduri, D., Priyadarsini, S., Munda, S., Chakraborti, M., Adak, T., Panneerselvam, P., Mukherjee, A.K., Swain, S.L. and Dash, P.K.,(2021). Turn the wheel from waste to wealth: economic and environmental gain of sustainable rice straw management practices over field burning in reference to India. Science of the Total Environment, 775, p.145896.

Davidson, A., (2023). Assessing value chain acquisitions that support differentiation innovation initiatives: lessons from Apple. Strategy & Leadership.

Coe, M.A., Pillitteri, J.L., Sembower, M.A., Gerlach, K.K. and Henningfield, J.E.,(2019). Kratom as a substitute for opioids: results from an online survey. Drug and alcohol dependence, 202,

pp.24-32.

Sioshansi, F., (2021). *What is flexible demand; what demand is flexible?. In Variable Generation, Flexible Demand* (pp. 107-124). Academic Press.

Gibbert, M., de Groote, J.K., Hoegl, M. and Mardini, M., (2023). *Recognizing New Complementarities before They Become Common Sense—The Role of Similarity Recognition. Organizational Dynamics*, 52(1), p.100915.

Anderson, p.l., McLellan, r.d., Overton, j.p. and Wolfram, g.l., (1997). *Price elasticity of demand. mckinac center for public policy*. 13(2). [Accessed 14 Apr. 2023].

Dhaliwal, A., Singh, D.P. and Paul, J.,(2020). *The consumer behavior of luxury goods: A review and research agenda. Journal of Strategic Marketing*, pp.1-27. [Accessed 14 Apr. 2023].

Donzé, P.Y. and Katsumata, S., (2022). *High-end Luxury Wine Demand and Income Inequality. International Journal of Wine Business Research*, 34(1), pp.112-132.

Fischer, L., Staffieri, A. and O'Rourke, J.S., (2008). *Apple, Inc.: Pricing the iPhone (A). In SAGE Business Cases. The Eugene D. Fanning Center for Business Communication, Mendoza College of Business, University of Notre Dame*.

Haque, M.O., (2006). *Income elasticity and economic development: Methods and applications* (Vol. 42). Springer Science & Business Media.

Kasulaitis, B.V., Babbitt, C.W. and Krock, A.K., (2019). *Dematerialization and the circular economy: Comparing strategies to reduce material impacts of the consumer electronic product ecosystem. Journal of Industrial Ecology*, 23(1), pp.119-132.

News, B. (2023). *Apple sales in biggest fall since 2019*. [online] BBC News. Available at: <https://www.bbc.co.uk/news/business-64506940> [Accessed 1 May 2023].

Ray, A. and Vatan, A., (2013). Demand for luxury goods in a world of income disparities.

Shammout, E., D'Alessandro S., Small. F., and Nayeem T. Lifting the curtain on cultural values, materialism and luxury consumption: Evidence from Jordan. Journal of Consumer Behaviour, 21(5), pp.987-1001.

Tejvan Pettinger (2017). Consumer Expectations - Economics Help. [online] Economics Help. Available at: <https://www.economicshelp.org/blog/2072/economics/expectation/> [Accessed 1 May 2023].

Thao, T. and Tsanthaiwo, S., (2017). Apple Inc. In the Years to Come. the Years to Come (June 20,2017).

T. Osadiya,(2023) Chapter 1: Introduction to Economics pp 5-9

T. Osadiya,(2023) Chapter 13: The labour market theory demand, supply and wage determination pp 131-132

Vergara, R.A.G., (2012). Samsung Electronics and Apple, Inc.: A Study in Contrast in Vertical Integration in the 21 st Century. Am Int J Contemp Res, 2(9).

Waterson, M. and Doyle, C., (2012). Your call: eBay and demand for the iPhone 4. International Journal of the Economics of Business, 19(1), pp.141-152.

Wiesböck, F. and Hess, T., (2020). Digital innovations: Embedding in organizations. Electronic Markets, 30(1), pp.75-86.

Online References

Indeed Editorial Team, (2022). What is consumer demand and what factors affect it? [Online],

Available through:

<https://uk.indeed.com/career-advice/career-development/consumer-demand>