



MANAGEMENT ECONOMICS

LCBB5008



ASSESSMENT 1

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ECONOMIC ANALYSIS

Economic analysis is simply the process of evaluating something from an economist's point of view. It looks at economic structures and might also entail looking at a specific industry or method of production. The goal of the analysis is to evaluate the effectiveness of the economy or one of its parts and profitability is its main focus. Economists claim that economic analysis is a structured method for deciding how to use scarce resources in the most efficient way. (MBN, 2023)

ABOUT APPLE

Apple designs, produces, and markets smartphones, personal computers, tablets, wearables and accessories, and a range of related services. The company functions in different parts of the world, including the Europe, Americas, Greater China, Japan, and Asia Pacific. It offers a range of products such as phones, headphones, watches, computers and other streaming and licensing services. In April 1976, Steven Jobs, Stephen Wozniak and Ronald Wayne founded the company in Cupertino, CA. Apple is well-known for its revolutionary impact in hardware, services and networking. Steve Jobs came back to the company in 1997 when it had 8,000 workers and was making \$7 billion in sales. In 2019, it raised to 137,000 workers and earned \$260 billion. The organizational design and leadership of the firm play a significant role in influencing innovation success, but unfortunately, it is often overlooked. (Forbes, 2023 and HBR, 2020)

Top players in the technology industry face intense competition among themselves. Apple has a number of rivals in the industry such as Microsoft, HP, Lenovo, Samsung and more. These brands are currently competing intensely and if one of them fails, it can lead to advantages for the others. Moreover, Apple's performance and profits are significantly impacted by competition. Apple's market share is secure. A new player in this industry can face significant challenges due to the high cost of starting a company and the time-consuming process of building a recognized brand like Apple. (Gazerani, 2020)

PRODUCT OF ANALYSIS

For a better analysis and understanding on Apple, a key product has been chosen, iPhone, that will help to demonstrate its impact towards the society and the company. In 2007, Apple unveiled the revolutionary iPhone as a comprehensive digital device that promised to keep your entire life readily accessible in your pocket. The statement was not very revealing when it was initially made regarding how the iPhone would achieve its objectives. However, a decade later, the release of the iPhone X validated the statement's accuracy. The influence of iPhone on the society

is immense, as it promotes creativity in the mobile phone sector. Apple has highly devoted customers, as previously stated in the last chapter. This is a significant means of communication with customers, but it can result in lengthy wait times when launching a new product. Apple boasts a retail presence of 10,000 touch points and 400 stores globally, despite having limited distribution channels. This company is evaluated by the customer demographic that Apple is interested in, especially since the rise of e-commerce websites. It consistently releases a video showcasing new features of the upcoming iPhone prior to its market release. (Gazerani, 2020)

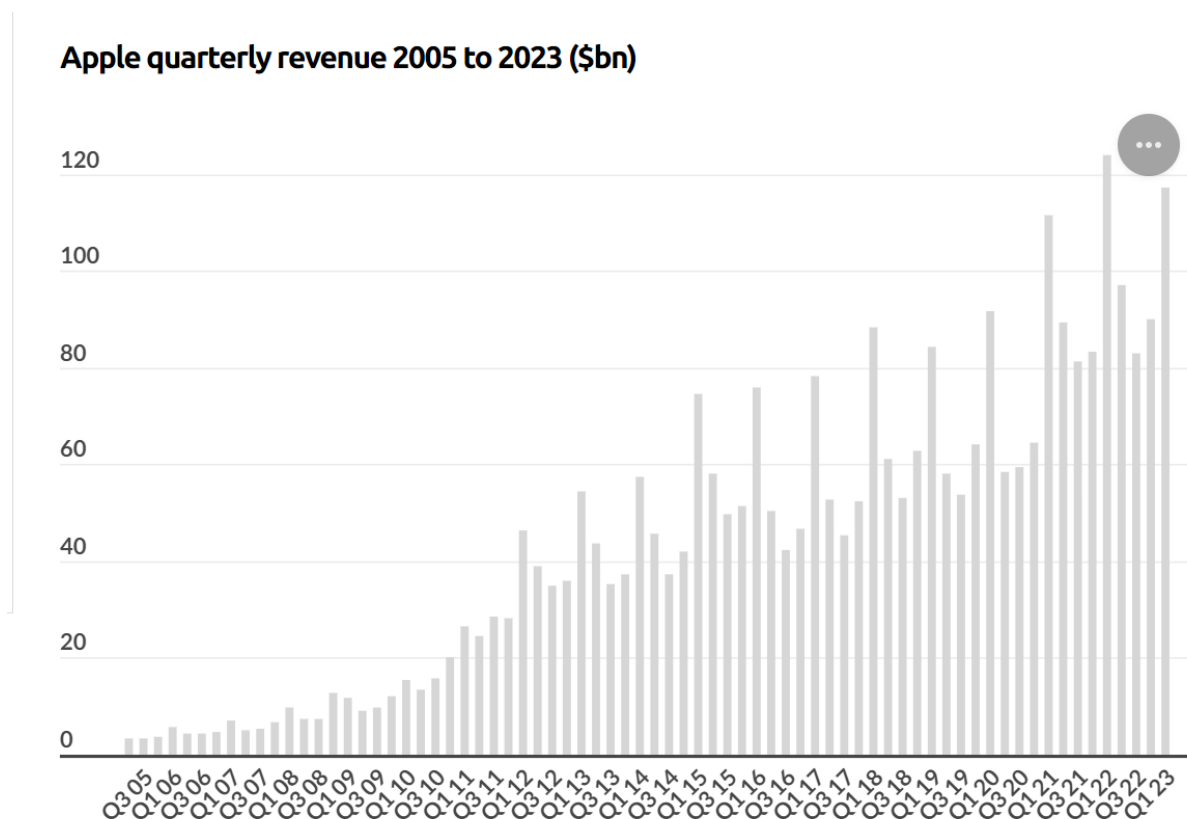


Figure 1: Apple's revenue 2005-2023 (BusinessofApps, 2023)

Apple revenue by product category 2015 to 2023 (%)

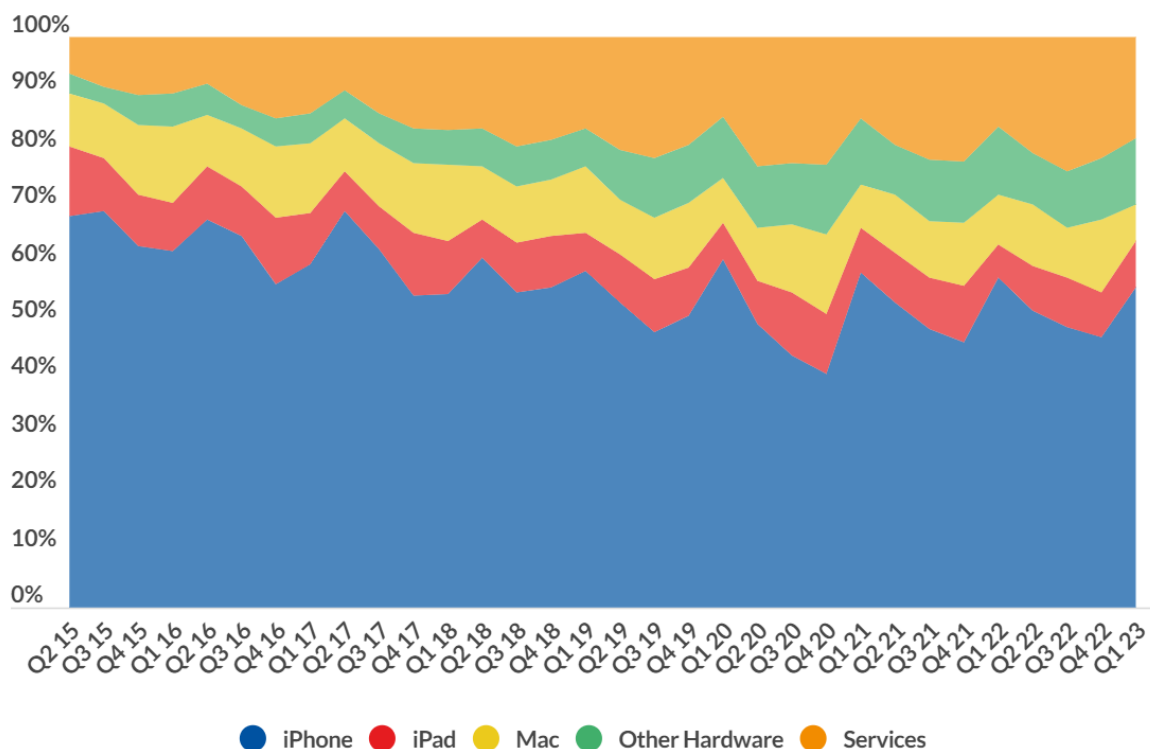


Figure 2: Apple's revenue by product category 2015-2023 (BusinessofApps, 2023)

CONSUMER TRENDS REGARDING SMARTPHONE

People are moving away from simplistic mobile phone technology as it can perform tasks that are similar to those of a personal computer. This industry comprises of companies that develop and manufacture products that enhance the efficiency and production of electronic devices such as cell phones, computers, televisions, and others. Systems for communicating and sharing information. The industry has significant potential for growth, but it may face unstable periods as evidenced by various studies. Research indicates that mobile phones are constantly evolving with new features and applications that cater to the information requirements of their users. This enables them to perform a wider range of functions than ever before. Mobile phones have changed a lot over time and now offer more than just talking to someone else. Although they were originally used solely for communication, they now have many additional features. (Kaur, 2015)

DEMAND AND MARKET EQUILIBRIUM

As stated by Griffiths (2011) , demand refers to the quantity of a good or service that buyers are ready and capable of buying at a specific price level. It concentrates on the amount of a product or service that is needed at a particular

point in time. Effective demand refers to the presence of both the desire and ability to make a purchase. If people cannot afford to buy an iPhone, wishing for it won't make it an effective demand.

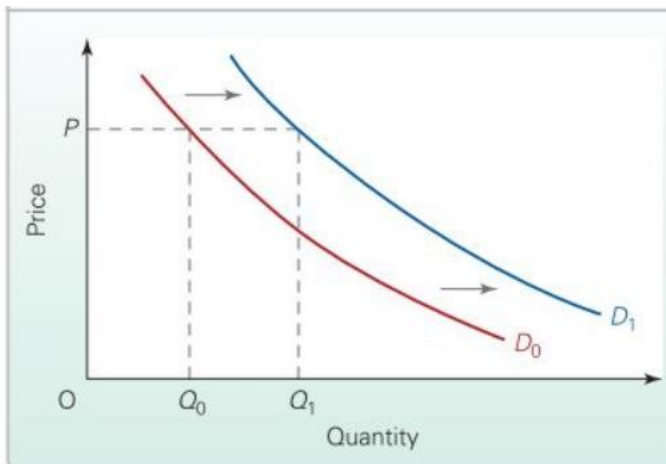


Figure 3: The increase in demand (Solman, 2020)

Market equilibrium refers to the state where opposing interests are in harmony with each other. The point where demand equals supply is the only time when both parties are willing to make a transaction. The price mechanism will naturally lead to this outcome in a free market. (Solman, 2020)

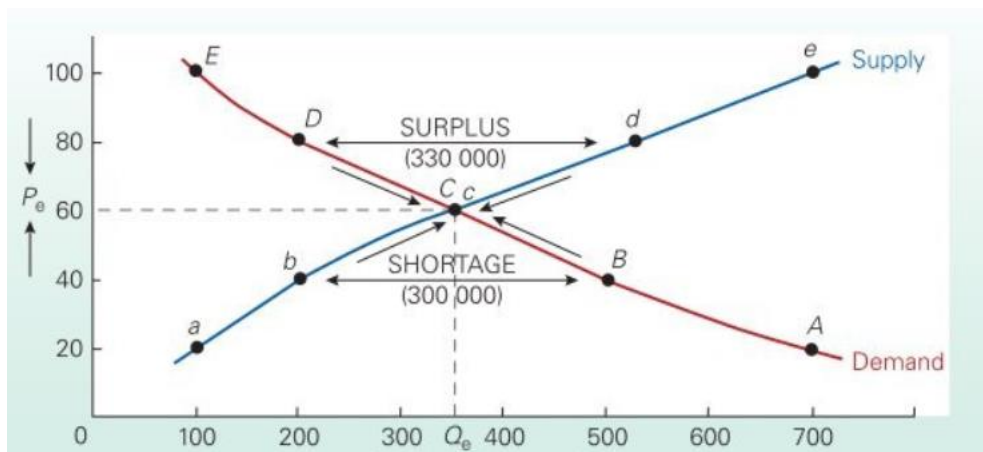


Figure 4: Determining the market equilibrium (Solman, 2020)

PRICE OF SUBSTITUTES

The presence of alternative options for consumption. As the substitutes become more abundant and nearby, the demand becomes more responsive. A slight price fluctuation for iPhone may cause a significant shift in its demand, as consumers may switch to or from substitutes. (Griffiths, 2011)

While Android and the iPhone may seem similar in function and physical appearance, brand loyalty can make a significant difference to some consumers, making them view one as an inadequate replacement for the other. A decrease in the cost of Android phones will result in an increase in consumer demand. Traveling on

the demand curve. Consequently, the decline in demand for iPhone results in reduced demand and the demand curve moves leftward. (Economicshelp, 2017)

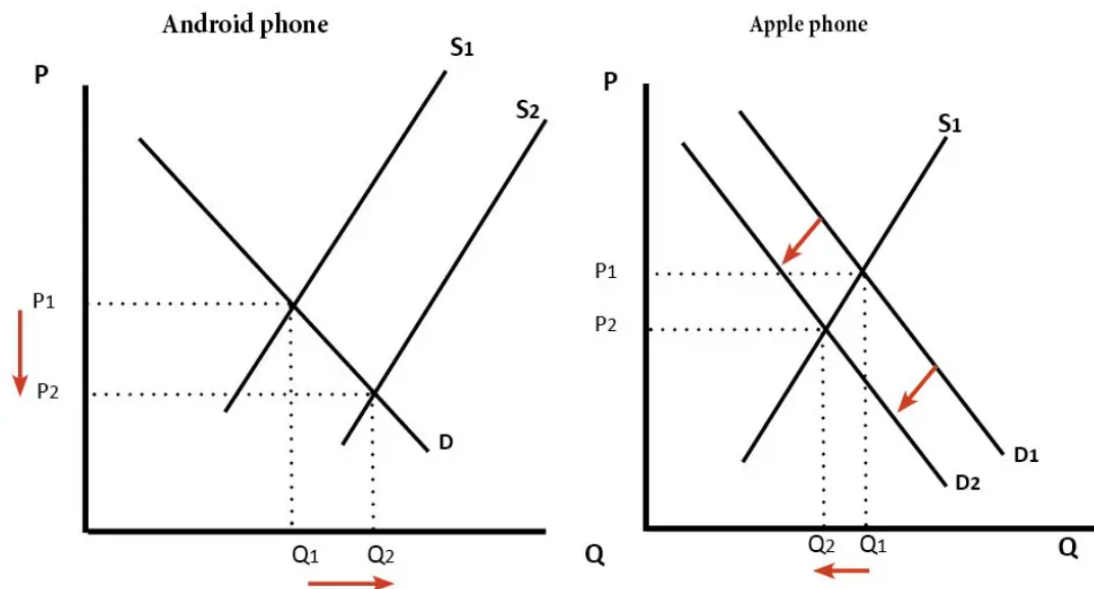


Figure 5: Android and Apple substitutes (Economicshelp, 2017)

PRICE OF COMPLEMENTS

Complimentary goods refer to products that are typically used in conjunction with one another. When the price of complementary goods goes up, people tend to buy less of them and, in turn, the demand for this good decreases. The price of iPhone will impact the demand for IOS games. The demand for IOS games will decrease if fewer smartphones are sold due to an increase in their prices. (Solman, 2020)

CONSUMER'S INCOME

According to Baye (2017), fluctuations in income can influence consumer buying behavior and consequently alter their purchasing capacity. A change in income alters the demand curve graphically. The direction of the demand curve, whether it shifts to the right or the left in response to an increase in income, is determined by the nature of consumer consumption patterns. Economists categorize goods into normal and inferior goods. A product that experiences an increase in demand (shifts to the right) when consumer incomes increase is known as a normal good. When people's income increases, they tend to purchase more normal goods. If a consumer's income decreases, there will be a lower demand for a normal good, which will shift towards the left.

CONSUMER'S PREFERENCES

According to Solman (2020), goods become more desirable the higher the demand for them is. For iPhone, the new releases are more demanded, compared with the previous versions, as there is the desire to discover the novelties.

CONSUMER EXPECTATIONS OF PRICE

As Solman (2020) stated, when individuals anticipate an increase in prices, they tend to purchase more in advance to avoid paying a higher price later. Consequently, this behavior leads to an increase in demand for the product.

Apple's sales are decreasing due to the economic slowdown and potential customers delaying smartphone purchases due to the increasing prices. In the first quarter of 2022, the tech giant's revenue dropped by 3% to £75.4bn compared to the corresponding period in the prior year. The company has experienced a decline in sales for two consecutive quarters. The fall was not as severe as anticipated due to the steady demand for iPhones and the acquisition of new international customers. Apple cautioned investors about a potential decrease in sales by up to 5% for the January-March period compared to the previous year. iPhone sales raised by 1.5% and reached a record of \$51.3bn for the quarter, contributing to the positive results. The rise in demand in south Asia and Latin America was cited as the reason for the company's growth. (BBC, 2023)

DEMOGRAPHICS

Changes in population size and demographics have an impact on product demand. As the population grows, more people want to buy certain goods that are often bought together. So, if the price of one of these goods goes up, people will want to buy less of the other one. And if the price of one goes down, people will want to buy more of the other. (Baye, 2017) The number of iPhone users has grown significantly for Apple, rising from 44.53 million in 2012 to 124.7 million in 2022, as represented in the figure below. (Statista, 2023)

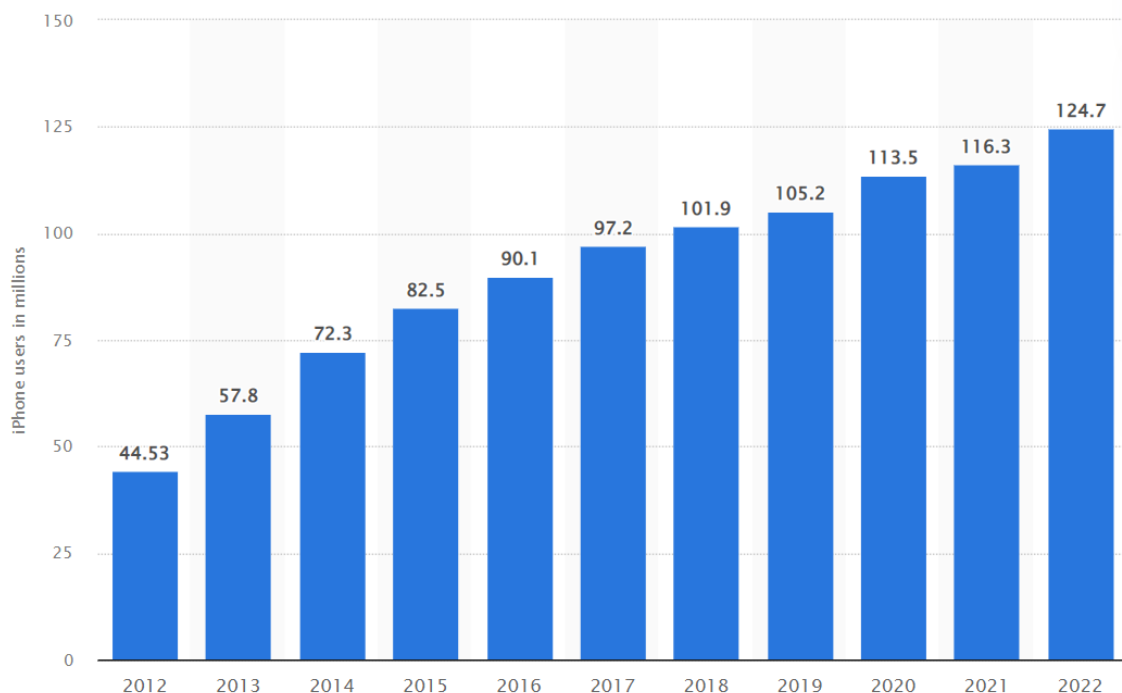


Figure 6: Number of iPhone users 2012-2022 (Statista, 2023)

PRICE ELASTICITY OF DEMAND

According to Samuelson (2015), price elasticity calculates how much a product's sales fluctuate in response to variations in its price. This idea holds significance for two key reasons: knowing a good's price elasticity helps firms anticipate how changing the price will affect its unit sales and price elasticity helps businesses make profitable pricing choices. Price elasticity of demand analyses how responsive the quantity of a good is to price changes while holding all other variables constant. It is calculated by dividing the quantity change by price change by percentage. In order to establish the best prices using marginal analysis, price elasticity is crucial. Calculating elasticity based on minute changes in price is necessary because marginal analysis examines minor changes to an initial decision.

FACTORS AFFECTING PRICE ELASTICITY OF DEMAND

The demand for a good's price elasticity depends on four crucial factors: how essential the good is, if there are options available, the percentage of a consumer's income spent on it, and how long it takes to adjust demand. (Samuelson, 2015)

The first factor to consider is how much of a necessity the good is. Non-essential goods or services can be easily foregone by the buyer if the cost becomes unreasonable, even without alternative options. Demand is elastic in that scenario. High demand for a good makes it harder to cut back on consumption when the price goes up. Demand for this case is not greatly affected by changes in price, indicating price inelasticity. (Samuelson, 2015)

The availability of alternatives is another aspect to take into account. Demand is elastic because consumers have many options to switch to if a product's price rises too much. When there are no similar alternatives, switching is more difficult, and the demand is less responsive. Compared to the demand a specific industry firm faces, industry demand is less elastic. If one business increases its prices, customers can easily switch to another. Since rival companies provide comparable substitutes for their products, a single company in an industry may experience high demand elasticity. Imagine the effects if all businesses in the sector raised their prices at once. Consumers who are price conscious only have two choices: pass on the product or look for an alternative from a different sector. The only option left would be to cover the increased cost if none of the other options were feasible. The market is not particularly responsive. This also holds true when a single monopolist has complete control over a market or a range of goods. Due to being the sole producer as opposed to a specific company within a multi-company industry, the monopolist's demand is less flexible. (Samuelson, 2015)

The percentage of a consumer's income allocated towards purchasing a particular good is a significant factor in determining price elasticity. The problem is

related to the expense of finding appropriate substitutes for the product. Comparing substitute products requires a significant investment of both time and money. If people spend a lot of money on something, it's worth looking into and comparing the costs of other similar items. The customer is highly influenced by the cost of the product. If the amount spent on the good is a small fraction of the overall earnings, it won't be worth looking for substitutes due to the involved cost and energy. Commodity items usually have relatively inelastic demand, all else being equal. (Samuelson, 2015)

IPHONES- LUXURY OR NECESSITY?

Though Apple products have always been expensive, it's interesting to see how consumers are now accepting the brand as a sign of luxury. Apple's position as a luxury brand today is a sharp contrast to where it was just two years ago.

In 2013, amid reports that its stock was falling, there were rumours that Apple would introduce a plastic phone. People believed that Apple was finally ready to enter the lower-end market, which excited them. Given the growing popularity of Samsung at the time, the price of the plastic phone was anticipated to be \$300 or less. Apple's development slowed down significantly, indicating a saturation of the high-end smartphone market as the majority of people with the means to do so have bought an iPhone. With features that were comparable to those of the iPhone but much more affordable, Android seemed destined to rule the world. Apple's surprisingly release of the plastic iPhone 5C with an unlocked price of \$550 caught everyone off guard. Despite the fact that some people were looking for cheaper phones, Apple made the right choice. The company continued to maintain their premium pricing strategy. The uniqueness of Apple would have been diminished if the phone's price had been reduced. Despite not being an affordable option to everyone, Apple's prices are in line with the performance and quality of its products. (Insider, 2015)

DEMAND FOR IPHONE: ELASTIC OR INELASTIC?

Because customers are willing to spend their savings on Apple's newly launched products, price changes have little effect on demand for their products, making them inelastic. If they raise their prices, many brands that are not in line with Apple risk losing customers to their rivals. (Forbes, 2023)

CONCLUSION

Apple enjoys a sizable market and devoted supporters. The technology market has succeeded despite being extremely competitive, maintaining market demand while expanding presence. Apple's business strategy, which focuses on creating novel, high-quality products rather than relying on dated ones, is the key to their success. Throughout the entire organization, this business is innovative.

Economics is not a definitive field of study as it considers many human characteristics and behavior that are often difficult to measure. Economists must use

available data to estimate the probability of an event happening at a specific moment. They use the concept of price elasticity of demand to gauge how sensitive consumer demand is to changes in the price of a particular product. This metric is valuable for anticipating consumer actions and predicting significant occurrences, such as an economic downturn or upturn. When a good becomes more expensive and people have the option to go without it or to use substitute products, they tend to decrease their consumption or maybe even stop using it altogether. (Gazerani, 2020)

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