

ECO200H Writing Assignment 1

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1.1 Market

Apple's iPad has dominated the global tablet market since its release in 2010 due to its high quality and functionality. As the most popular and luxury tablet in the world, more than fifty million Pads are sold each year. iPad has a varied consumer target. Thousands of apps on it with adapted accessories can meet with the requirements of consumers from almost all kinds of backgrounds. However, iPad's price is higher compared with other similar products. Consumers with strong economic power are more likely to buy iPads. Also, iPad competes with its substitutes, such as tablets from Samsung, Huawei and Lenovo on market share, and these substitutes' price and values would influence iPad's market.

1.2 Individual Demand for the iPad

According to the indifference curve, if iPad's price becomes lower, the individual's budget constraint will shift out and preference over iPad and food will also change. The income effect will be positive, but substitution effect for the demand of iPad might be negative. Individuals will substitute food with iPad only when marginal utility of iPad is higher than marginal utility of food. However, the marginal utility for iPad decreases dramatically as the number of iPads owned increases. If the individual plans to buy more iPads before the price decrease, he will gain larger income effect and smaller substitution effect. Also, if an individual can't afford an iPad after meeting with food needs, there will be no effect on the demand.

1.3 Market Demand of the iPad

If I were to predict daily demand for the iPad over the course of a year, I should know the previous daily demand for iPad and its normal increasing rate. Also, since I would adjust the increasing rate with factors that will affect the market demand and use that to count the predicted value, data that can reflect the trend of these factors is also needed. Factors include product price, income, number of consumers, taste and price of substitutes and complements. If iPad's price decreases, consumers' average income increases, number of consumers increases, taste more towards iPads, price of its substitutes increases or complements decreases, iPad's demand will increase. Vice Versa.

1.4 Elasticities

The demand elasticity is the percentage change of quantity divided by the percentage change of price. Therefore, to estimate the value, the quantity of iPad at price P, a price that is a little different with P and its quantity are needed. The estimated elasticity would depend on percentage change of the two quantities and prices. If elasticity is greater than one, the company should decrease the price as the percentage change of demand quantity will be larger than the price change. Vice Versa. The company can maximize its total revenue when keeping elasticity as one.

1.5 Conclusion

Although iPad is the top tablet in the global market, it still faces challenges in competing with its substitutes. To gain maximum profit and maintain a long-time development, Apple should keep the high quality of iPad and set its price to make demand elasticity as close to one as possible.