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About Apple Inc. iTunes

In agreement with five major music companies—BMG, EMI Group, Sony, Universal Music Group, and Warner Brothers Records—iTunes offered legal, easy-to-use, and flexible à la carte song downloads. By allowing people to buy individual songs and strategically pricing them far more reasonably, iTunes broke a key customer annoyance factor: the need to purchase an entire CD when they wanted only one or two songs on it. iTunes also provided a leap in value beyond free downloading services via sound quality as well as intuitive navigation, search and browsing functions.

The unprecedented value iTunes offered triggered customers the world over to flock to iTunes with recording companies and artists also winning. Under iTunes they receive some 70 percent of the purchase price of digitally downloaded songs, at last financially benefiting from the digital downloading craze. In addition, Apple further protected recording companies by devising copyright protection that would not inconvenience users—who had grown accustomed to the freedom of digital music in the post-Napster world—but would satisfy the music industry.

Today iTunes offers more than 37 million songs as well as movies, TV shows, books and podcasts. It has now sold more than 25 billion songs, with users downloading on average fifteen thousand songs per minute. iTunes is estimated to account for more than 60 percent of the global digital music download market. While Apple has dominated this blue ocean for more than a decade, as other online stores zoom in on this market, the challenge for Apple will be to keep its sights on the evolving mass market and not to fall into competitive benchmarking or high end niche marketing.

Apples's iTunes

Apple Computer Inc. decides to make iTunes freely available in unlimited quantities.

iTunes is a media player, media library, Internet radio broadcaster, and mobile device management application developed by Apple Inc. It was announced on January 9, 2001.

Tunes are no longer scarce and the incentive to listen to tunes changes. Tunes are no longer scarce and the incentive to listen to tunes remains the same. Tunes remain scarce but the incentive to listen to tunes changes. Tunes remain scarce and the incentive to listen to tunes remains the same.

A. How does Apple's decision change the opportunity cost of a download?

Opportunity costs represent the benefits an individual, investor or business misses out on when choosing one alternative over another. While financial reports do not show opportunity cost, business owners can use it to make educated decisions when they have multiple options before them. Because people make choices, all opportunity costs have the following characteristics:

- 1] All costs are costs to someone. Only people bear costs.
- 2] Costs are subjective. Individuals may value costs differently.
- 3] Opportunity costs result from actions. "Things" have no costs in and of themselves.

All costs relevant to decision making lie in the future. People can anticipate costs, but they occur only after a choice has been made.

As every coin has two sides even opportunity cost has 2 sides. When the iTunes are available for free in unlimited quantity implies Apple lovers will choose Apple iTunes that's the opportunity cost. In the global world when people get something free they always get that instead

of something else. This gives Apple iTunes the opportunity to get customers by giving them what are the needs for music and downloads. As today's generation is growing as per the technology people need entertainment and various artists to spend some leisure time and become stress-free. Here the opportunity cost is Apple iTunes download for the Apple users. iTunes was among a few players to provide such a facility. On the other hand, opportunity cost will also fall down because when download of iTunes became free for unlimited quantities because due to this decision they can download as many times they want to download. Opportunity cost means what is lost by what is gained. Here the loss is that the music companies which kept songs and albums for premium will lose and the people who have iTunes will gain due to this offer. Hence the opportunity cost of download will fall.

BI Does Apple's decision change the incentives that people face?

An incentive is something (such as the prospect of a punishment or a reward) that induces a person to act. Because rational people make decisions by comparing costs and benefits, they respond to incentives. You will see that incentives play a central role in the study of economics. One economist went so far as to suggest that the entire field could be simply summarized "People respond to incentives. The rest is commentary." Incentives are crucial to analyzing how markets work. For example, when the price of an apple rises, people decide to eat more pears and fewer apples because the cost of buying an apple is higher. At the same time, apple orchards decide to hire more workers and harvest more apples because the benefit of selling an apple is also higher. As we will see, the effect of a good's price on the behavior of buyers and sellers in a market—in this case, the market for apples—is crucial for understanding how the economy allocates scarce resources. Public policy makers should never forget about incentives because many policies change the costs or benefits that people face and, therefore, alter their behavior.

Because iTunes is now free, it does change the incentives that people face. Now that it is free in unlimited quantity, people have more of an incentive to download the program. Now that it is free, more people will be on it than ever before, which means their traffic will increase exponentially. However, Apple has a win in this situation.

c. Is Apple's decision an example of a microeconomic or a macro economic issue ?

Microeconomics studies the decisions of individuals and firms to allocate resources of production, exchange, and consumption. Microeconomics deals with prices and production in single markets and the interaction between different markets, but leaves the study of economy-wide aggregates to macroeconomics. Study of the economic behavior of individual units of an economy (such as a person, household, firm, or industry) and not of the aggregate economy (which is the domain of macroeconomics).

Microeconomics is primarily concerned with the factors that affect individual economic choices, the effect of changes in these factors on the individual decision makers, how their choices are coordinated by markets, and how prices and demand are determined in individual markets. The main subjects covered under microeconomics include theory of demand, theory of the firm, and demand for labor and other factors of production. Apple's decision is a micro economic issue because it affects an individual firm and an individual market. The decision made by the company does not affect the entire economy.

In conclusion, When the iTunes are available for free in unlimited quantity implies that there are other players in the market which offer a similar online store for music download. There was a time when iTunes was among a few players to provide such a facility. Apple's

decision is a microeconomic decision because it affects a single company and a single market. Incentives can be either monetary or non-monetary. When opportunity costs change, incentives change, and people's choices and behavior change. Changes in incentives cause people to change their behavior in predictable ways.

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