iPhone pricing as economic experiment

devblogs.microsoft.com/oldnewthing/20110224-01

February 24, 2011

Raymond Chen

Back in 2005, *Slate*'s Tim Harford wondered why Microsoft didn't raise the introductory price of Xbox 360 game consoles. With the price set at $300, lines were long and shortages were many. Harford's readers came up with their own theories for resisting the laws of supply and demand and holding to a fixed price. The Xbox 360 is hardly unique in this respect. When there's a hot product, manufacturers hold to the original price and let the lines grow, the shortages fester, and the customers get more frustrated. Think *Tickle Me Elmo* or *Cabbage Patch Kids*. Even though from an economic-theoretical standpoint, a product that has sold out with unmet demand is a product whose price was set too low.

With the iPhone, Apple unwittingly ran the experiment that Harford proposed. There were lines, but by some reports, the lines weren't all that bad. After the initial demand subsided, Apple did what the economists say they should have done: They lowered the price. And the people who bought the phones at the higher price complained (forcing Apple to offer a store credit) and one of them even sued. *Slate*'s Daniel Gross opines on the lessons learned.

Raymond Chen

Follow