

Ignorance

On the occasion of the outcry over the iPhone's \$200 price cut, [a critic of Daring Fireball](#) claimed

No, there's more to this issue than people not understanding capitalism.

Indeed. It wasn't just 'not understanding capitalism', it was *not having even the remotest clue* what the proponents of capitalism consider to be their core position and their core arguments. This is not unusual. Many people in our society lack any such clue.

[T]his price drop shows that Apple was making more of a killing than anyone could have possibly imagined, more than anyone could have possibly thought was fair.

I mean, you could probably figure out the raw cost of a pork belly, but an iPhone is a little harder to pin down.

In a sense, this sweeping ignorance is a terrifying state of affairs. In another, a very hopeful one.

Fri, 09/07/2007 - 13:56 | [digg](#) | [del.icio.us](#) | [permalink](#)

hopeful one

Why a "very hopeful one"?

by a reader on Fri, 09/07/2007 - 21:15 | [reply](#)

Re: hopeful one

Because it suggests that all we have to do is inform them.

by [Editor](#) on Fri, 09/07/2007 - 22:00 | [reply](#)

Hope

Another hopeful sign is that the hackers who visit [news.ycombinator.com](#) tend to get it.

<http://news.ycombinator.com/item?id=51232>

Someone wrote:

I think most early buyers would prefer a \$200 cash rebate rather than a \$100 gift certificate to the Apple store. Especially since almost everything in there is above the \$100 level. I think the gesture's nice, but it's definitely not completely fair.

And I replied:

What's fair about buying something at a price that you think is worth it, then going back a month later and complaining you aren't happy anymore?

I got massively upmoded.

This also got upmoded:

And they'd prefer a \$20,000 cash rebate and a Macbook Pro even more. Especially since Macbook Pros are nice. What of it? They thought \$599 for an iPhone was fair. They're getting at least \$100 more than they expected.

-- Elliot Temple

curi@curi.us

Dialogs

by [Elliot Temple](#) on Fri, 09/07/2007 - 23:07 | [reply](#)

Worth and Value are different than Price

Value is in the mind of the beholder. Price is a fickle thing.

Ironic beauty?

The first I-Phones were worth all of the \$599 subjective value to anyone who bought one. These buyers were each first on their block to own a flashy new gadget. They paid the appropriate price for what they coveted or they would not have bought it.

The subjective value of the I-Phone today is \$399 or less. Price can change according to markets or the calculated whims of the market. The consumer surprise was in how quickly the price tag changed. Yet, worth is still in personal usefulness of a product. So where's the beef?

To be first on your block, the subject of buyer envy, is temporarily worth more than the initial price of the product to those who shell out the cash. In the psychology of capitalistic purchase, you believe that exclusivity and price is a status symbol. Oops, the phone is no longer quite so exclusive.

Not much different than buying a pig in a rhinestone studded poke. If you need the pork, if you can eat the pork, you're happy. If you think rhinestones on the package are diamonds you're bound to be dissatisfied.

Worth, like beauty, is in the deep utility of the thing according to its merit. False worth, like fake beauty, can be obscured by price. Let the buyer beware of his own mindset.

Worth and Value? Capitalism is a whole 'nother thing altogether, only marginally related. Sometimes the sudden recognition of that truth by a public outing, in this case by no less than the "god" of Apple - Steve Jobs, brings wails and collective gnashing of teeth.

Regardless of Price, the I-Phone is still a beautiful gadget. I want one.

by a reader on Sat, 09/08/2007 - 15:08 | [reply](#)

Why is it Hopeful?

by a reader on Sun, 09/09/2007 - 16:48 | [reply](#)

Re: Why is it Hopeful?

Because it suggests that all we have to do is inform them.

-- Elliot Temple

curi@curi.us

Dialogs

by **Elliot Temple** on Mon, 09/10/2007 - 01:09 | [reply](#)

Hopeless

And, do the forum conversations support the idea that irate buyers, once informed, are changing their minds?

I think we need to do more than inform them.

Most of these people won't change their minds by just being exposed to better theories. They need to believe that there's a real chance that their cherished myths might be wrong. Until then, many of them won't take the criticism seriously.

I don't think this will happen until economic understanding is much more generally widespread. Believing that prices are whims should become as unfashionable as believing that the earth is flat.

Gil

by **Gil** on Mon, 09/10/2007 - 14:22 | [reply](#)

Earth is Flat?

What is a "fair price"?

Curious as to how we cultivate economic understanding in a flat-minded world.

by a reader on Mon, 09/10/2007 - 16:03 | [reply](#)

Fair and Spherical

Well, some people define "fair" rather strangely (in my opinion). Often, it seems to be something like "Something I'll continue to feel good about no matter what changes in the world, including my mind."

I don't see how an offering price can be "unfair" (absent fraud). If a buyer doesn't like it, he doesn't have to accept it.

But, more technically, I think most people should accept that "fair price" is one that approaches a **market clearing** price, in a relatively efficient market, driven by **supply and demand**.

As for how to spread economic literacy, I'm not sure. I'm confident that it will happen in the long run, but I don't know how to speed it up dramatically. Anti-market communities, like religious communities, seem to have developed a strong immunity to conventionally persuasive arguments.

See the comments to this mildly economically literate post in on a fairly "progressive" blog: **Vacation Mandates, again**

Maybe it would help if some pop-culture icons made it cool to understand markets.

Until then, I guess we have to patiently continue to make the same arguments, and hope that the best arguments gather enough momentum break through most of the resistance.

Gil

by **Gil** on Mon, 09/10/2007 - 17:02 | [reply](#)

Link Correction

Oops. I meant to use this link for: **supply and demand** above

Gil

by **Gil** on Mon, 09/10/2007 - 17:05 | [reply](#)

Price Cut

I can't disagree that people are silly to complain about buying something they wanted at a price they were willing to pay. That's the way it works.

The interesting question is why Apple cut the price. I don't think it was part of their initial plan. If they had foreseen the response and bad PR, I'm sure they would have tried to handle it differently.

And, if Apple was "making more of a killing than anyone could have possibly imagined," they would have just kept on making it. That's also the way it works.

It almost certainly wasn't selling like they'd hoped. Maybe they wanted to clear the market for the holiday season and their line of new products. Maybe there's something in their agreement with

AT&T that requires certain sales figures to be met (each one is a new subscriber for AT&T), and the failure to meet the targets results in direct or indirect financial penalties of some sort. Who knows?

Anyway, no one who bought a phone has any reason to complain (about the price) and no one should think that such a drastic price cut so soon after the launch is the result of a successful plan.

by **Michael Bacon** on Tue, 09/11/2007 - 21:13 | [reply](#)

Sheesh!

I think the state of affairs is terrifying again.

This is unbelievable.

Gil

by **Gil** on Wed, 10/03/2007 - 04:44 | [reply](#)

More on Worth and Value are Different than Price

I was reminded of this topic recently when reading the story of the little known Varian Fry who ran a small agency which rescued over one thousand individuals from the Nazis at the beginning of WW II. With only \$3000 strapped to his leg, a list of names, and a noble cause he and his small staff made a permanent difference in the lives of so many.

In contrast, I read how the U.S. government wasted 20 billion U.S. with a noble cause and total stupidity. See http://www.amconmag.com/2005/2005_10_24/cover.html, Money for Nothing.

It's true, worth and value are different than price. The crucial factor seems to be good common sense versus blind knee-jerk ideology. Let the buyer beware.

by a reader on Wed, 01/02/2008 - 05:16 | [reply](#)

Not Fair

Gil,

"...'fair price' is one that approaches a market clearing price, in a relatively efficient market, driven by supply and demand."

You are now arguing that the iPhone initial price was NOT FAIR. The price would not have dropped so precipitously if it had been "fair", using your definition. (In a very efficient market, when the price was high more firms would have been selling it, lowering the price to just above the average total cost of producing it). Apple would not have had to change the price at all, it would have fallen by itself.

When demand fell, in a very efficient market, many firms would

have left the market leaving the price approximately the same (at just above the average total cost of production). All firms buying the iPhone from Apple would have continued to pay approximately the same amount (close to the minimum average total cost).

The fact that the price fell precipitously shows that the market was in fact not that efficient. In a truly efficient market, it should be the number of firms in the market that changes, not the price of the good. The price of the good (in a truly efficient market) should stay at just above average total cost when demand for the good changes.

Gil, I'm not sure your concept of "fair" is fair to the brilliance of the marketplace.

by a reader on Mon, 01/07/2008 - 18:59 | [reply](#)

Don't mean to hijack the thread

Don't mean to hijack the thread or anything, but is everything all right at **The World**? Been a while between posts.

by a reader on Wed, 01/09/2008 - 02:45 | [reply](#)

Re: Don't mean to hijack the thread

Thanks for the concern. We're all rather busy, is all.

Normal service will be resumed as soon as possible.

by [Editor](#) on Wed, 01/09/2008 - 18:26 | [reply](#)

Discovering new secrets of the universe no doubt

I was concerned as well. Glad all is sticking ticking along.

by [Solomon](#) on Tue, 01/22/2008 - 01:46 | [reply](#)

errr...

...that's "still ticking along."

by [Solomon](#) on Tue, 01/22/2008 - 01:50 | [reply](#)

Are you so sure YOU understand it?

Your argument is basically that

a) because of Apple's legal right (you seem to assume that ethical right is implicit in the legal right) to shape price(s) as the company sees fit:

b) the consumer is obliged to shut the hell up and bear it.

Sorry, this is not the case. Market is a democracy and the consumer is not obliged to do anything. True enough, in our Lawyer Age when purchasing the device means agreeing to EULA stating pretty much that the purchaser has absolutely no rights to anything and that the

purchased device does not even belong to him whilst the manufacturer has no obligations whatsoever Apple could do pretty much anything. Yeah, they can milk the early adopters for all their money and then show them the middle finger. But such behaviour has consequences. Because the consumers will not bear it, suck it up and so on. They are not paid for it, quite the opposite - it's them who have the money Apple wants. And they can turn away from a brand that treats its consumers this way. So no, the consumer has no obligation to shut the frig up. He does not have any obligation whatsoever - he can complain, whinge and whine. And vote with his wallet.

by Piotr Smolanski on Wed, 04/02/2008 - 15:01 | [reply](#)

Copyright © 2008 Setting The World To Rights