

Changes in the Supply and Demand for DVD Players

Prior to 1999, only a handful of manufacturers produced DVD (digital versatile disk or digital video disk) players. As a result, the price of DVD players hovered around \$1,000. Happily for consumers, 1999 was touted as the year of the DVD: Entry by more than 20 manufacturers pushed the price of DVD players down from the stratosphere and into the budgets of millions of households that were willing to pay about \$200 per machine. The number of DVD players sold is expected to continue increasing into 2003, thanks to the increasing number of movie titles released on DVD and available at rental outlets such as Blockbuster and Hollywood Videos.

Figure 2-14 illustrates the changing market for DVD players. In 1998 the market was in equilibrium at point A, where the equilibrium price of DVD players was about \$1,000. Due to the dramatic increase in the number of manufacturers of DVD players, the

supply of DVD players increased (shifted rightward) to $S^{Current}$, resulting in a new equilibrium at point B. As a result of this increase in supply, the price of DVD players declined dramatically.

By the year 2003, many economists predict that the demand for DVD players will increase. In particular, the increase in the supply of movies released on DVD and stocked at major outlets will dramatically lower the price of renting or buying such movies. These lower prices for DVD movies (a *complement* to DVD players) will shift the demand for DVD players rightward to D^{2003} , resulting in a new equilibrium at point C. Notice that the predicted increase in demand will lead to even more DVD players being purchased, but the resulting impact on price is expected to be small compared to the sharp decline in DVD player prices that occurred during 1999. Accordingly, the predicted 2003 price of DVD players is well below \$1,000.

FIGURE 2-14 Market for DVD Players

