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Professor Morley
Economics 104 Section 01

Luxury Cars: Conspicuous Nonconsumption

Although the German carmaker of Mercedes, DaimlerChrysler, launched the Maybach M62 luxury car two years ago with confidence that it would be quickly consumed by the rich buyers in North America, it has been disappointed by the low sales in the past 11 month. Other luxury cars producers in the market have experienced similar effects. The problem is that the rich people have lost interest in the luxury car market. They no longer find satisfaction in buying showy cars, but instead have shifted their demand for something not as visible from public life, such as yachts.

The makers of luxury cars have found that the sales in the past 11 months are way below projected sales. There is a decrease in the demand for these goods. The usual consumers of these products, the wealthy mass, have chosen to spend their money on other goods such as yachts. The article mentions that the rich do not want to flaunt their wealth in public with luxury cars, but now prefer yachts, something you can store away safely at the marina. The preferences for the goods have changed. The substitute effect is applicable here because yachts act as a substitute that has caused a change in the usual demand of luxury cars. As was discussed in class, the law of demand applies here. Because the price of luxury cars is not the variable that is affecting the change in demand of them, the demand curve will shift to the left (Lecture: January 28, "III. Demand"). In addition, based on the model we have discussed in class, because the luxury car market has seen a decrease in demand, it will have to adjust the price in order to maintain market equilibrium (Lecture: January 31, "I. Market Equilibrium"). With the demand curve shift towards the left (assuming that the supply does not change), there will be a surplus of luxury cars. It can then be predicted based on the model of supply and demand that the price of luxury cars will have to drop in order to maintain market equilibrium (Chapter 3, p. 69).

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