



# What Does the "Tickle Me Elmo" Craze Tell Us About Economics and the Economy?

**Hordes of adults rioting in decent Fredericton over a kid's toy in short supply at 3 am? Toy scalpers selling a modestly priced toy for thousands of dollars? "Tickle Me Elmo" not only has shown us a few things about basic economics and human nature, he also has a few tips to offer us on the current state of the economy.**



"Tickle Me Elmo" is a cute kid's toy. Based on Elmo of Sesame Street fame, he is essentially a plush fabric toy with an imbedded micro-chip. A poke to his cute belly elicits a giggle and a "Don't tickle me" response. Fabric, microchip and labour in a cheap Asian assembly plant probably combine with royalties to put his cost a few dollars at the top end. Why then are adults, who should know much better, waiting in line, grasping, pushing and even offering thousands of dollars in their frenzy to buy "Tickle Me Elmo" for their kids' Christmas present?

"Tickle Me Elmo" represents an economic truth. When the demand for "Tickle Me Elmo" exceeded the supply, the price rose until "the market cleared". When a well known talk show personality showed "Tickle Me Elmo" on her show as a cute Christmas gift, it caused a huge increase in demand for this previously unheralded toy. The suppliers, not knowing this would be the case, probably had ordered modest amounts of this plush toy, not wanting to get stuck with a large inventory after the Christmas selling season. Given the poor retail showing of Christmas the last few years, our distributor friends were no doubt cautious in their ordering!

The fact that prices for "Tickle Me Elmo" rose quickly when demand exceeded supply is not remarkable. What is remarkable is that the price rose so much. There are a few lessons in this for us and the people in charge of monetary policy in the United States and Canada, namely, Alan Greenspan and Gordon Theissen.



Now let's look at the basics. We don't have to spend a lot of time on the supply part of the supply and demand equation. The suppliers of Elmo submitted their orders early last year and production geared up a few months later. Shipping from Asia had to be taken into account and deliveries were made to the distributor in the spring and summer. The distributor probably shipped to retailers in the fall, to have Elmo at the ready for the all important Christmas selling season. Apart from traders and speculators shunting Elmos between geographic areas, this traffic would not be substantial since everyone is experiencing the Elmo craze, we can consider the supply fixed.

The demand side is another issue. Demand really breaks down into the underlying or "fundamental" demand for a product and "speculative" demand. The real or "underlying" demand reflects the use or benefit that a product has. In this case, we have mostly the psychographic benefits of hugging and snuggling a plush toy like Elmo for the child involved. We can even give a large impact to the Christmas morning high experienced by the parents, knowing that their child is the only one in the neighbourhood

with "Tickle Me Elmo". The monetary value of these benefits is relatively high compared to other toys, but is not stratospheric. What is stratospheric is the speculative demand attached to Elmo.

Speculative demand is pure, raw emotion. It combines healthy doses of fear and greed. Think it over for a minute. You're at WalMart. The announcer machine-guns over the PA system that "Tickle Me Elmo" has arrived. You don't particularly need one, you might not even have kids. But you've heard the buzz. You know Elmo is in short supply. Greed consumes you! You rush to the toy section. Fear grabs hold. There's only one left. A massive derriere is the only thing between you and Elmo. You accelerate, swinging wide. Your moment has arrived. With the grace of an accomplished running back you spin, throwing your hip out. Your competitor for Elmo is knocked akimbo. You grab Elmo and make the dash for the check-out. It's only in the car that you realize that your kids are all teenagers, there's no grandchildren on the horizon. A grin settles over your puzzled visage. You'll take out an advertisement in the local paper. You have become a "toy scalper".

This scenario plays out in the financial markets every day. Accumulate a stock. Make the shorts pay. Hit the bid. Take your profits.

The fact that it is occurring in kid's toys says a lot about the state of the economy. It's bad, you think. Job losses. Cutbacks. No raises.

Think again. The last time we had this craziness over a kid's toy was 1986, with the Cabbage Patch Kid craze. We came out of the Recession in 1982 due to loose monetary policy. Rapid growth and incipient inflation were followed by a tightening of monetary policy. Slower growth and an inventory correction in 1984-85 met with a substantial loosening of monetary policy and plunging interest rates. In 1986, inflation bottomed and the economy seemed destined to slowly groove its way forward with ever rising financial markets. Except that rising wages and inflation were met with a tightening of monetary policy in 1987. Crash went the markets. The economy, however, kept up its substantial head of steam until 1990, when it too slowed.

A necessary condition for a rapid price increase is the availability of money to buy a good or service. A benign and loose monetary policy in 1986 led to many things increasing in value, including the Cabbage Patch Kids. In 1996, the monetary policy in North America is similarly benign. Economists won't call this one until we've obviously turned the corner into strong growth, but it seems likely that "Tickle Me Elmo" is serving as a leading indicator of sorts. Elmo, when you tickle his tummy, tells us that the economy is in much better shape and the Christmas season will be much better than most experts think. Perhaps with dire consequences for the "feel good" slow-growth market consensus. Rising wages, inflation and interest rates are one of the last things that the financial markets expect.

Are you listening to Elmo Mssrs Greenspan and Theissen?

**Article by John Carswell - December 18, 1996**

Name: \_\_\_\_\_ Date: \_\_\_\_\_

After you have read “What Does the ‘Tickle Me Elmo’ Craze Tell Us About Economics and the Economy?,” answer the questions below.

1. What specific event helped increase demand for Tickle Me Elmo?
  
  
  
  
  
  
  
  
  
  
2. Why didn’t suppliers already have a large supply of Tickle Me Elmo on hand before the specific event?
  
  
  
  
  
  
  
  
  
  
3. What happened when there was a shortage of Tickle Me Elmos in the stores?
  
  
  
  
  
  
  
  
  
  
4. Once the public realized that there was a shortage of Tickle Me Elmos, what other things increased the demand even more?
  
  
  
  
  
  
  
  
  
  
5. Think of another product for which demand increased as it did for the Tickle Me Elmo. Create a poster advertisement that would increase demand for a popular product.

Draw on a sheet  
of loose-leaf and  
staple to this.