

# Why Nintendo's \$50 Switch 2 Price Hike Is Really About Memory Chips

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*Note: the original article is provided as a separate file (attached to the email or downloadable from the website).*

## 1. Reading Passage

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Nintendo just pulled off one of the most successful console launches in gaming history – and then apologized to its customers. On Friday, the Tokyo-based company announced that the Switch 2 will get more expensive almost everywhere it is sold. In the United States, the price will rise from \$449.99 to \$499.99 starting in September. In Japan, the locally exclusive version will jump from ¥49,980 to ¥59,980, roughly \$382. After shipping close to 20 million units in the year ending in March, Nintendo now expects to ship just 16.5 million Switch 2 consoles over the next 12 months – a forecast analysts described as underwhelming.

What went wrong? Nothing, really, on the demand side. Gamers still want the console. The squeeze is coming from inside the supply chain. Nintendo, along with rivals such as Sony, is being battered by the soaring cost of memory chips, which have spiked because data-center operators are buying up enormous quantities of them to power the global build-out of artificial intelligence. The same chips that go into a Switch 2 also go into the servers training large language models – and the AI buyers have deeper pockets.

The damage shows up across Nintendo's books. The company reported annual profits of ¥360.1bn, missing analyst estimates closer to ¥400bn, and predicted profits of ¥570bn for the year ending March 2027. That projection assumes roughly ¥100bn of additional pain from rising component prices – particularly memory – and from US tariff measures. Nintendo's leadership called those assumptions 'extremely conservative,' a hint they expect to outperform. Investors weren't reassured: the stock has dropped about 45% from its August peak, including a 3.6% slide on the day of the announcement.

Here's the part most people miss. Consoles historically get \*cheaper\* over their lifecycle, not more expensive. Nintendo raising the price barely a year into the Switch 2's run is unusual, and it signals something bigger than one company's accounting. The AI boom is no longer just a Wall Street story or a Silicon Valley story – it is starting to bleed into the prices of ordinary consumer goods. Sony has been pressured by the same memory-cost dynamics for the PlayStation 5, and analyst David Gibson at MST Financial estimates that planned spending on a PS5 successor could reach ¥40bn. Nintendo is arguably more exposed than Sony, because it sells to a younger, more price-sensitive audience that may balk at a \$50 hike on a device families buy for kids.

Nintendo is betting that brand loyalty wins. Mario, Zelda, Pokémon, and a freshly announced Star Fox remake are meant to keep the audience locked in even as the sticker price climbs. Whether that works depends on a question no one can fully answer yet: how much will families pay to stay inside the Nintendo ecosystem when every other piece of technology in their lives is also getting more expensive? The Switch 2's second year will be a real-world experiment in pricing power – and a preview of how the AI era reshapes the cost of the everyday gadgets that have nothing, on the surface, to do with AI at all.

## 2. Explanation

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***Nintendo just sold almost 20 million Switch 2 consoles in a year – and still had to apologize and raise prices. The villain isn't greed; it's a global memory-chip shortage.***

### What's Going On?

Nintendo is hiking the price of its hit Switch 2 console worldwide, with the US version jumping \$50 to \$499.99 and the Japan-only edition climbing from ¥49,980 to ¥59,980 (about \$382). The increases kick in starting in September.

The company also slashed its sales forecast: after shipping nearly 20 million Switch 2s in its first year, it now expects to ship just 16.5 million over the next 12 months. Analysts called the forecast underwhelming, and Nintendo's annual profit forecast of ¥360.1bn missed Wall Street estimates of around ¥400bn.

### How To Think About It

This isn't a story about Nintendo doing badly – the Switch 2 launch was a smash. It's a story about a hardware company getting squeezed between two forces it can't control: the price of its raw materials and the politics of trade.

- Imagine running a pizzeria during a worldwide cheese shortage. Customers still love your pizza, but every wheel of mozzarella now costs three times as much because hospitals, schools, and a giant new buyer (say, a frozen-food conglomerate) are bidding against you. You either eat the cost or raise prices – and Nintendo just raised prices.
- Or think of college tuition. Universities don't necessarily want to charge more, but when their costs rise faster than expected, they pass the bill to whoever's next in line – students. Nintendo is doing the same to gamers, and explicitly blamed memory costs and US tariffs for the move.

### Key Things To Know

- The US Switch 2 goes from \$449.99 to \$499.99; Nintendo expects to ship 16.5 million units next year, down from nearly 20 million.
- The real culprit: memory chips. Global demand from AI data centers has driven memory prices up roughly 27.5%, hammering anyone who builds electronics.
- Nintendo isn't alone – Sony has also been squeezed by memory costs for the PlayStation 5, and analyst David Gibson at MST Financial estimates Sony's PS5-successor R&D could hit ¥40bn.
- Nintendo baked roughly ¥100bn of cost-and-tariff pain into its forecast – a number CEO-level executives called 'extremely conservative.'
- What people miss: console makers historically *\*cut\** prices over a generation. Raising them mid-cycle is unusual and signals that the AI boom is bleeding into consumer products.

### Why It Matters

If you've been saving for a Switch 2 – or a new laptop, phone, or graphics card – this is your first taste of how the AI build-out hits ordinary buyers. Data centers gobbling up memory chips means less supply

for everything else, and prices ripple outward. The same dynamic will shape what your generation pays for tech, from college laptops to the first car you buy with built-in AI features.

### **The Bigger Picture**

Nintendo's stock has fallen sharply from its August peak, and the company is now exposed to the same supply-chain physics that crushed gadget makers during the 2021 chip shortage — only this time the rival buyer isn't carmakers, it's hyperscale AI. Watch for two second-order effects: rivals like Sony delaying their next-gen consoles to dodge the memory crunch, and game publishers releasing fewer big-budget titles if the installed base of consoles grows more slowly than planned. Nintendo is betting Mario and Zelda are strong enough to absorb a \$50 sticker shock. We're about to find out.

### 3. Key Terms Glossary

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#### **Memory chip**

A type of semiconductor that stores data temporarily (DRAM) or permanently (NAND flash). Used in everything from phones to AI servers – and consoles.

#### **Operating profit**

What a company earns from its core business after subtracting operating costs, but before interest and taxes. A cleaner measure of underlying performance than net profit.

#### **Tariff**

A tax a government places on imported goods. US tariffs raise the cost of products like the Switch 2 that are manufactured abroad and shipped into America.

#### **Forecast**

A company's official projection of future sales or profits. Investors compare forecasts to analyst expectations – missing them usually punishes the stock.

#### **Margin**

The slice of revenue left over as profit after costs. Rising memory prices compress margins because the same console now earns less per unit sold.

#### **Installed base**

The total number of a company's devices already in customers' hands. A bigger installed base means more potential buyers for games and accessories.

#### **Component costs**

What a manufacturer pays for the parts inside a product – chips, screens, batteries. When components get pricier, finished-good prices often follow.

## 4. Reading Comprehension Quiz

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Circle the best answer for each question.

**Q1.** The passage primarily argues that Nintendo's Switch 2 price increase is best understood as:

- A) A reaction to weak consumer demand for the console
- B) A response to external cost pressures the company cannot control
- C) A long-planned strategy to maximize launch-year revenue
- D) A retaliation against rival Sony's PlayStation pricing moves

**Q2.** Which choice best states the central idea of the passage?

- A) Nintendo's Switch 2 has commercially failed in its first year of sales
- B) AI data centers are causing shortages of consumer electronics worldwide
- C) A successful product launch can still be undermined by rising input costs
- D) Japanese gaming companies are losing ground to American competitors

**Q3.** According to the passage, Nintendo's profit forecast missed analyst expectations primarily because:

- A) Console sales fell short of the company's targets last year
- B) Memory and tariff costs forced the company to revise margins downward
- C) Nintendo invested heavily in a successor to the Switch 2
- D) Software sales for the Switch 2 collapsed unexpectedly

**Q4.** As used in the passage, the word 'conservative' most nearly means:

- A) Politically traditional
- B) Reluctant to change
- C) Cautiously low
- D) Financially thrifty

**Q5.** As used in the passage, the word 'underwhelming' most nearly means:

- A) Disappointing relative to expectations
- B) Mathematically incorrect
- C) Deliberately misleading
- D) Surprisingly impressive

**Q6.** Which statement about the broader electronics industry can most reasonably be inferred from the passage?

- A) Memory chip prices are rising for reasons unrelated to gaming
- B) Console manufacturers will soon abandon hardware sales entirely
- C) Japanese firms face higher tariffs than other Asian electronics makers
- D) Sony will soon overtake Nintendo as the world's largest console maker

**Q7.** The passage suggests that Nintendo's decision to raise prices was made reluctantly because:

- A) The company has historically targeted price-sensitive, younger customers
- B) Japanese law restricts how often consumer prices can be increased
- C) Nintendo's older console, the original Switch, has stopped selling
- D) Investors had explicitly demanded that prices be kept stable

**Q8.** The author's tone in discussing Nintendo's outlook is best described as:

- A)** Openly skeptical of management's claims
- B)** Measured and analytically cautious
- C)** Enthusiastic about the company's prospects
- D)** Sharply critical of the price increases

**Q9.** Which inference about Sony, based on the passage, is most strongly supported?

- A)** Sony's PlayStation business is more profitable than Nintendo's console division
- B)** Sony faces similar cost pressures and is investing in a next-generation console
- C)** Sony plans to acquire Nintendo's console manufacturing operations
- D)** Sony has already abandoned the PS5 to focus on cloud gaming

**Q10.** Which choice provides the BEST evidence for the answer to the previous question?

- A)** 'Nintendo, along with other games companies such as Sony, has been under pressure from the rising costs of memory chips'
- B)** 'Nintendo is arguably more exposed to the cost of memory chips since it appeals to a younger, more price-sensitive fan base'
- C)** 'Investors have become concerned about the impact of memory costs on margins'
- D)** 'The Tokyo-based group forecast yesterday that operating profit for the year to March 2027 would increase 11 per cent'

**My Score:** \_\_\_\_\_ / 10

## 5. Answer Key with Explanations

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**Q1.** The passage primarily argues that Nintendo's Switch 2 price increase is best understood as:

**Answer: B**

The passage repeatedly attributes the hike to memory-chip costs and US tariffs – forces outside Nintendo's control – not to weak demand (the launch sold nearly 20 million units). D is the main trap: Sony is mentioned, but as a fellow victim of the same cost squeeze, not as a target. SAT Tip: When a question asks for the 'primary' argument, look for the cause the author returns to most often, not a detail mentioned only once.

**Q2.** Which choice best states the central idea of the passage?

**Answer: C**

The passage frames a paradox: the Switch 2 sold extremely well, yet Nintendo still had to raise prices and cut forecasts because of memory and tariff costs. A is the main trap (Trap A: wrong direction) – the launch was a hit, not a failure. SAT Tip: The central idea usually captures a tension or contrast in the passage, not just one side of it.

**Q3.** According to the passage, Nintendo's profit forecast missed analyst expectations primarily because:

**Answer: B**

The passage states Nintendo built roughly ¥100bn of memory and tariff costs into its forecast, leading to a ¥360.1bn profit projection versus analyst estimates near ¥400bn. C describes Sony's situation, not Nintendo's (Trap B: right vocabulary, wrong subject). SAT Tip: Watch for distractors that swap one company or person for another – passages often discuss multiple players, and trap answers count on you mixing them up.

**Q4.** As used in the passage, the word 'conservative' most nearly means:

**Answer: C**

Nintendo calls its cost forecast 'extremely conservative,' meaning the estimate is deliberately on the low/cautious side so reality is unlikely to be worse. A is the everyday political meaning – the classic vocab-in-context trap. SAT Tip: On vocab-in-context, substitute each option into the sentence; the correct one preserves the original meaning of the surrounding text.

**Q5.** As used in the passage, the word 'underwhelming' most nearly means:

**Answer: A**

Analysts called the 16.5 million unit forecast 'underwhelming' because it fell short of what they had hoped for, not because it was dishonest or wrong. D is the opposite-direction trap (Trap A). SAT Tip: If a word appears near comparison language ('lower than,' 'missing estimates'), the meaning almost always involves falling short, not exceeding.

**Q6.** Which statement about the broader electronics industry can most reasonably be inferred from the passage?

**Answer: A**

The passage attributes rising memory costs to 'the global race to build data centres,' which is unrelated to gaming demand. B overstates the case (Trap C: plausible-sounding but unsupported). SAT Tip: On inference questions, the right answer is usually a small, careful step from the text – sweeping predictions about the future are almost always traps.

**Q7.** The passage suggests that Nintendo's decision to raise prices was made reluctantly because:

**Answer: A**

The passage notes Nintendo appeals to a younger, more price-sensitive base, implying a reluctance to alienate that audience with hikes. D is unsupported (Trap C: sounds reasonable but isn't in the text). SAT Tip: 'Reluctantly' or 'hesitantly' questions usually point to a trade-off the passage describes – find the audience or value the company doesn't want to lose.

**Q8.** The author's tone in discussing Nintendo's outlook is best described as:

**Answer: B**

The author reports facts, contrasts forecasts with analyst estimates, and quotes outside experts without taking sides – that's measured analysis. D is tempting (Trap A: wrong direction) because the topic involves price hikes, but the author doesn't editorialize against them. SAT Tip: Tone reflects the author's word choices, not the topic – a story about bad news can still be told neutrally.

**Q9.** Which inference about Sony, based on the passage, is most strongly supported?

**Answer: B**

The passage describes Sony being squeezed by memory costs for the PS5 and cites planned spending on a PS5 successor estimated at ¥40bn. C and D are unsupported (Trap C). SAT Tip: When two companies are compared in a passage, look for parallels the author draws explicitly – those are usually the safest inferences.

**Q10.** Which choice provides the BEST evidence for the answer to the previous question?

**Answer: A**

Option A directly states that Sony, like Nintendo, is under pressure from memory chip costs – supporting the inference that Sony faces similar pressures. B is about Nintendo specifically, not Sony (Trap B: right vocabulary, wrong combination). SAT Tip: On evidence-pairing questions, find the line that matches your previous answer most literally – fancy-sounding quotes that drift off-topic are traps.