

The True Price of a Teh Tarik

A cup of tea costs a few ringgit. Working out why takes rather longer.

6 min read

Before you read

- **margin** — what is left from the price after costs are taken out
- **commodity** — a raw good traded in bulk, where one batch substitutes for another
- **overheads** — the running costs that continue whether or not anything is sold
- **volume** — in business, the number of units sold rather than the profit on each
- **elasticity** — how sharply demand changes when a price changes
- **externalised** — shifted onto someone outside the transaction



Pulling teh tarik at a mamak stall in Petaling Jaya.

¹ At a mamak stall in Petaling Jaya, a glass of teh tarik costs somewhere around two and a half ringgit. The price has the quality of a natural fact. It is what tea costs, in the way that rain is what falls.

² It is not a natural fact. It is the end of a long chain of decisions, most of them made by people who will never meet the person drinking.

³ Begin with the tea itself. The leaf in a glass of teh tarik is generally not the delicate top-leaf grade that commands high prices; it is dust and fannings, the small broken fragments left after sorting, bought by weight and valued for strength rather than subtlety. These fragments are a commodity. Their price is set on markets far from any stall, responding to weather in Assam and Sri Lanka, to shipping costs, to currency

movements — and the stall owner is a price-taker in that market, with no ability to influence it at all.

⁴ Then the milk, which is not milk. Sweetened condensed creamer is used because it is shelf-stable in heat, because it sweetens and thickens in one step, and because its price is far steadier than fresh dairy. The choice is as much about reliability as about taste. A stall that cannot predict its costs cannot predict anything.

⁵ Add sugar, gas for the burner, water, ice for the cold version, the glass itself and the cost of washing it. On a typical stall these direct ingredients might come to something under a fifth of the price. Which raises an obvious question: where does the rest go?

⁶ Mostly into things that have nothing to do with tea. Rent on a lot with pavement frontage. Electricity for lights and fans running sixteen hours a day. Licences. Wages for the person at the burner and the person carrying trays. Loss from spoiled stock. These are overheads: they continue whether forty glasses are sold or four hundred, which is why the economics of the stall depend overwhelmingly on volume.

⁷ That dependence explains almost everything visible about the place. It explains the long opening hours, since overheads run anyway and an extra hour of custom costs little more than the ingredients. It explains the crowded menu, since a customer who comes for roti and stays for tea carries two margins instead of one. It explains the plastic chairs, chosen because they can be stacked, hosed down and replaced cheaply.

⁸ It also explains why the price resists change. Teh tarik is close to the textbook case of elastic demand: there is a stall on the next corner, the product is near-identical, and nobody is loyal enough to pay thirty sen more. Raise the price alone and customers walk. So when costs rise, the adjustment usually appears somewhere other than the price — a slightly smaller glass, a cheaper creamer, one fewer person on shift.

⁹ That last adjustment is where the accounting becomes uncomfortable. The low price is not sustained only by efficiency. It is sustained in part by hours that would be unacceptable in most other industries, by work that is physically demanding and often performed by migrant staff with limited bargaining power, and by a set of costs — fatigue, insecurity, the value of a night that could have been spent otherwise — that appear nowhere in the price of the glass. Economists call such costs externalised: real, but carried by someone outside the transaction.

¹⁰ None of which makes buying a teh tarik wrong, and it is worth resisting that conclusion, because it is the lazy one. The stall provides work that is chosen over the available alternatives, and cheap prepared food is one of the quiet reasons living costs in Malaysian cities remain bearable for people on low incomes. Remove the stall and you do not produce better jobs; you produce no stall.

¹¹ The honest summary is narrower and more useful. A price tells you what a thing costs to buy. It does not tell you what it costs to produce, and the gap between those two figures is filled by decisions, trade-offs and people. Two ringgit fifty is not a fact about tea. It is a summary of a system, compressed until it fits on a laminated menu.

Part A Multiple choice

Circle the letter next to the best answer.

1. The writer describes the stall owner as a "price-taker" (paragraph 3) in order to show that
 - A the owner sets prices lower than competitors do
 - B the owner has no influence over what the raw tea costs
 - C customers decide the price of each glass
 - D the tea is of unusually low quality
2. According to paragraph 4, condensed creamer is used mainly because
 - A customers prefer its taste to fresh milk
 - B it is traditional in Malaysian tea preparation
 - C it keeps in heat and its price is predictable
 - D it is the cheapest ingredient on the stall
3. Paragraph 7 explains the stall's long hours, crowded menu and plastic chairs as
 - A consequences of the stall's dependence on volume
 - B evidence that the owner is cutting corners
 - C traditions inherited from older stalls
 - D requirements imposed by local licensing
4. The writer calls the conclusion that buying teh tarik is wrong "the lazy one" (paragraph 10) because
 - A most readers will already have reached it
 - B it ignores that the alternative to the stall is no stall at all
 - C it would require evidence the writer does not have
 - D it contradicts the economic argument made earlier

Part B Written response

Answer in two or three sentences. Refer to the passage.

5. Explain why the writer says overheads, rather than ingredients, determine how the stall operates.
6. In your own words, explain what elastic demand means as the writer uses it in paragraph 8, and how it affects what happens when costs rise.
7. Paragraph 9 introduces costs that "appear nowhere in the price". Explain what these are and why the writer describes the accounting as uncomfortable.

8. The writer makes a concession in paragraph 10. Explain what he concedes and what he gains by conceding it.

9. Explain the final sentence: "a summary of a system, compressed until it fits on a laminated menu". What is the writer claiming a price does and does not tell you?

Part C**Think deeper**

There is no single right answer here. Take a position and support it with evidence.

10. The writer argues that removing the stall would not produce better jobs. Is that a sufficient answer to the concerns raised in paragraph 9? Argue a position.

11. Who, if anyone, should bear the externalised costs the writer describes? Justify your answer and name what would change if your view were adopted.

12. Apply the writer's method to something else you buy regularly. What would its price conceal, and what would you need to know to find out?

13. The passage claims a price is a summary. Suppose prices were required to display their main cost components. Predict two consequences and assess whether the change would be worth making.

Answer key

For parents and teachers

Part A

1. B — no influence over the raw tea price | 2. C — shelf-stable in heat, predictable price | 3. A — consequences of depending on volume | 4. B — the alternative is no stall at all

Part B

5. Overheads continue regardless of how much is sold, so the only way to cover them is to spread them across many sales. That makes every decision — hours, menu, furniture — a decision about raising volume. Credit answers that identify the fixed-versus-variable distinction, even without the terms.

6. Demand is elastic when a small price rise sends customers elsewhere, which is the case where a near-identical product is sold nearby. So rising costs are absorbed through portion size, ingredient quality or staffing rather than through price.

7. Fatigue, long hours, insecure and physically demanding work, often done by those with least bargaining power. It is uncomfortable because the low price depends partly on these costs rather than purely on efficiency, and they are borne by people outside the sale.

8. He concedes that the stall provides chosen work and keeps living costs bearable. He gains credibility and forecloses the objection that he is arguing against cheap food, which allows his narrower conclusion to stand.

9. A price records only the terms of the exchange. It compresses a long chain of production decisions and human costs into one figure, and the compression is what makes the figure usable and also what makes it misleading.

Part C

These answers vary. Mark the reasoning, not the conclusion.

10. The strongest answers notice that the writer's point about alternatives answers a question about outcomes, not a question about fairness, and decide whether that is enough. Both conclusions are creditable.

11. Any allocation — employer, customer, state, consumer through higher prices — is acceptable with reasoning. Require the student to state what would actually change, which is where vague answers reveal themselves.

12. Reward a specific purchase and a specific hidden component, plus a realistic account of how the student would investigate. An abstract answer with no named product is weak however fluent.

13. Two consequences with assessment. Strong answers consider that most readers would ignore the information, which tests whether the student can predict against their own preference.

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