Fundamentals of Economics - Supply

Agenda

- Concept of Supply
- Law of Supply
- Elasticity of Supply
- Market Supply and Individual Supply
- Change in Supply

https://www.youtube.com/watch?v=La1Y02EVcto

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Supply

- The total amount of a product (good or service) available for purchase at any specified price at specified period of time is called supply.

Law of Supply:

“other things remaining the same, as the price of a commodity rises, its supply is extended, and as the price falls, its supply is contracted.

Here,

Extension of supply means increase in supply

Contraction of supply means decrease in supply

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Supply Schedule

A table that shows the relationship between the price of a good and the quantity supplied.

Supply Curve

- Graphic representation of the relationship between product price and quantity of product that a seller is willing and able to **supply**.
- Here, price of the factors of production and technology remains constant.
- Product price is measured on the vertical axis of the graph and quantity of product supplied on the horizontal axis.
- It describes the seller's desire to make the good available.

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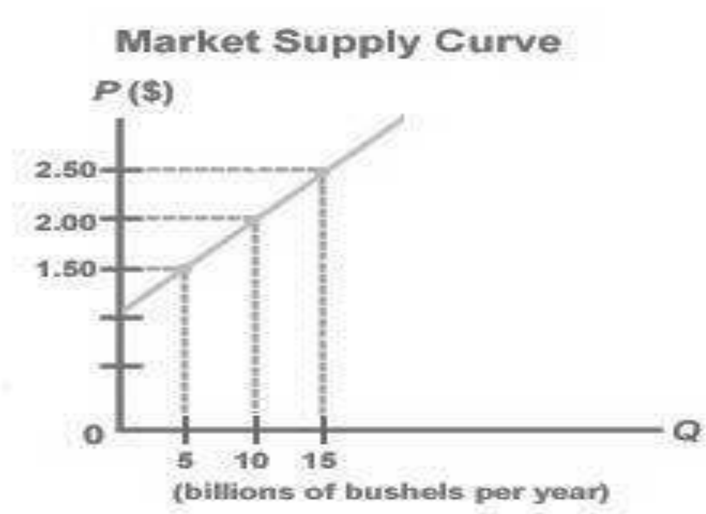
Supply schedule and supply curve

Supply Schedule

P	Q_s
\$1	0
\$1.50	5
\$2	10
\$2.50	15
\$3	20
\$3.50	25
\$4	30



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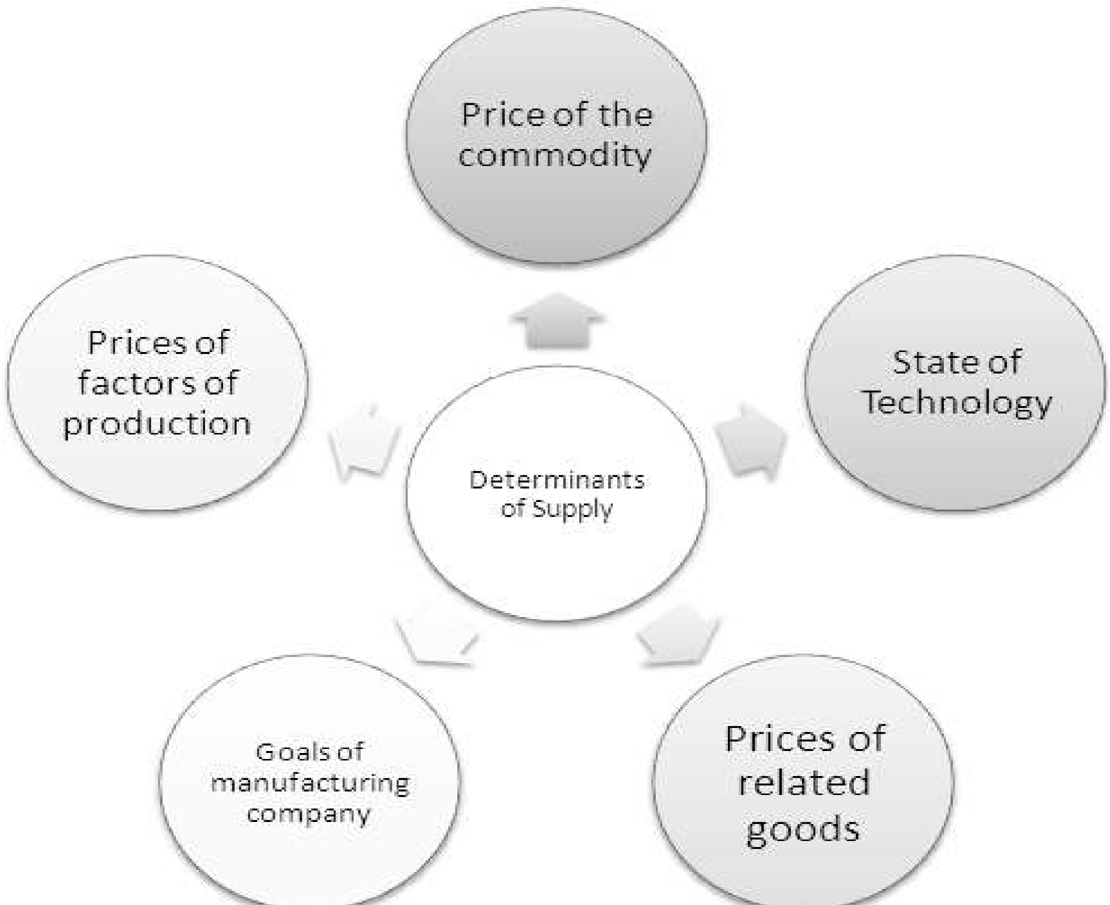
Determinants of Supply



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Determinant: Price of factors of production

- Examples of input prices:
  wages, prices of raw materials etc.
- A fall in input prices makes production more profitable at each output price, so firms supply a larger quantity at each price,
  and the **s** curve shifts to the right.

Determinant: Goals of manufacturing company

If it is to earn high profit then they will supply at high prices

If they want to take existence in market then at low price also they will supply.

Determinants: Technology changes

Technology determines how much inputs are required to produce a unit of output.

A cost-saving technological improvement reduce cost of production and profitability increased that lead to the high supply.
It will shift supply curve in the right side.

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Determinant: Price of commodity:

High competition leads low prices of goods/services and that leads more quantity supply at low prices also and vice-versa.

Determinant: Price of related goods

if other firm supplies more at low price then one also have to perform like same.

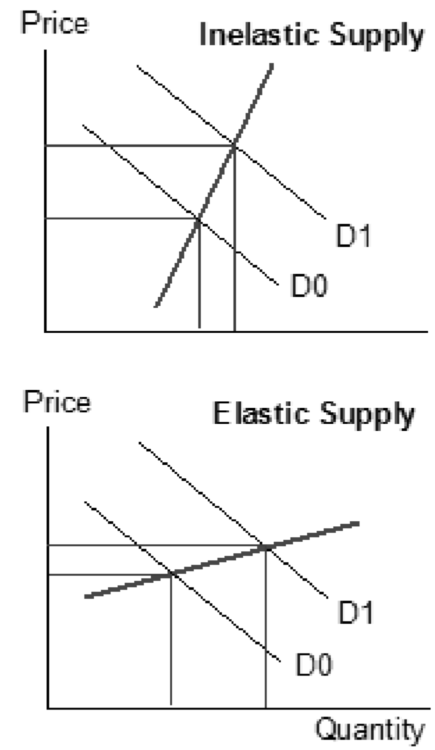
Elasticity of supply

= <u>% change in quantity supply</u>

% change in price

It describes the responsiveness of sellers to a change in the price of the product.

If elasticity is higher then quantity supplied is also higher, it is when the price and demand will increase.



Individual Supply to Market Supply

Goods/services supplied by an individual seller is known as individual supply.

Market supply is found by combining the individual supplies of every firm or producer willing and able to sell a particular good.

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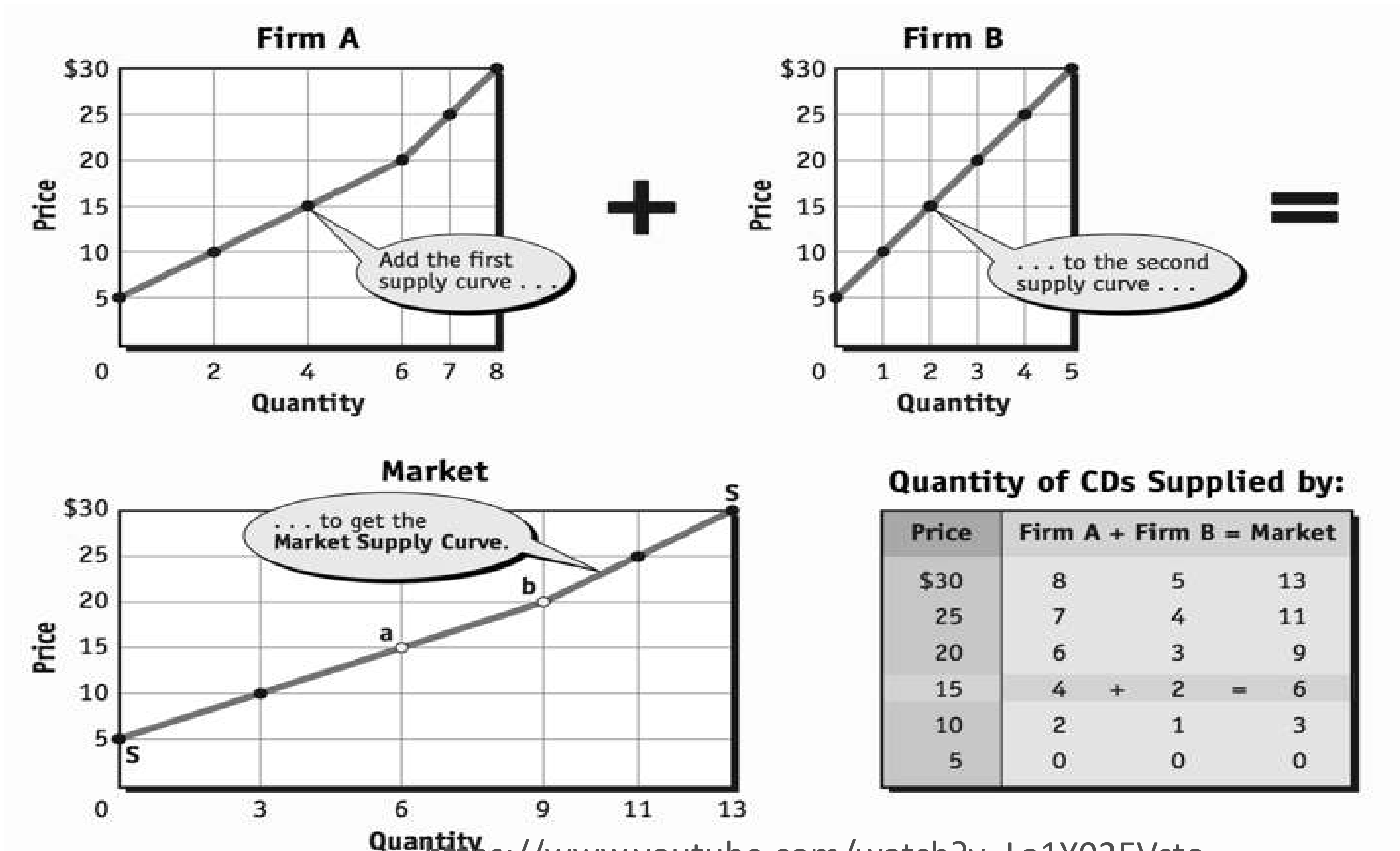
Individual Supply to Market Supply



Price	Firm A	+	Firm B	=	Market
$30	8		5		13
25	7		4		11
20	6		3		9
15	4	+	2	=	6
10	2		1		3
5	0		0		0

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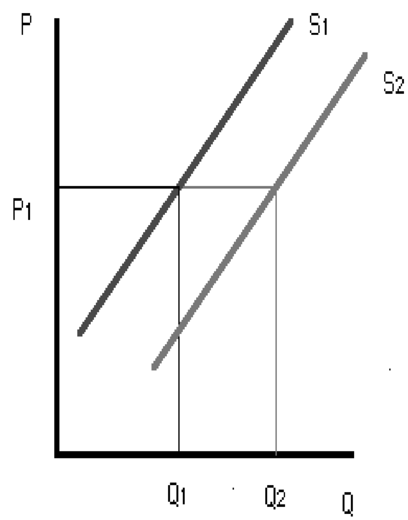
Change in supply

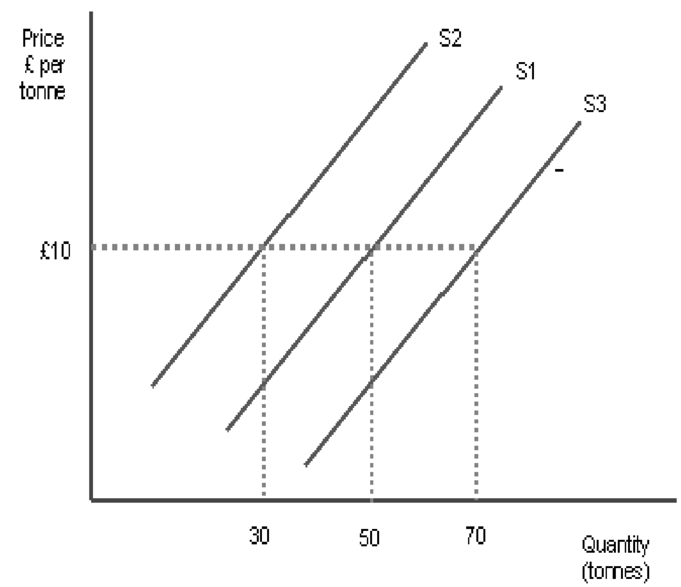
change in costs, input prices, technology regulations, expectations leads to change in supply.

Outward shift in supply curve



When Supply increases, the curve shifts out and will produce more output for each given price level.

Inward shift in supply curve



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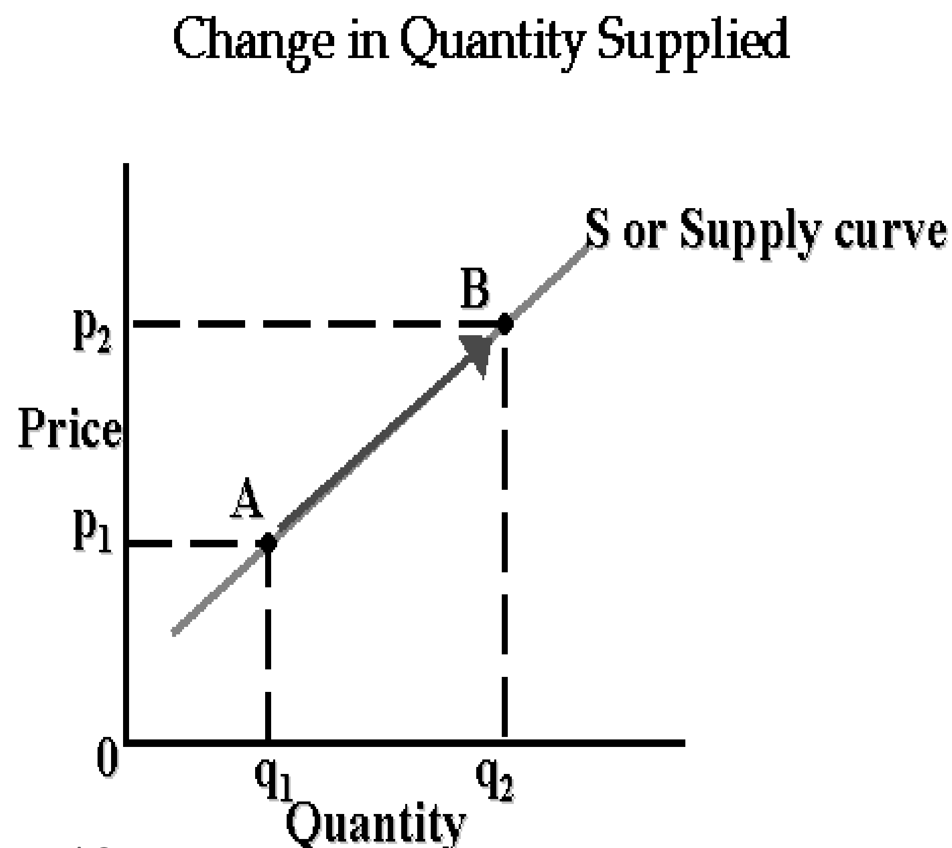
Change in Quantity supplied

- Change in price of goods leads to change in supply called change in quantity supplied.
- It has movement along the curve



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