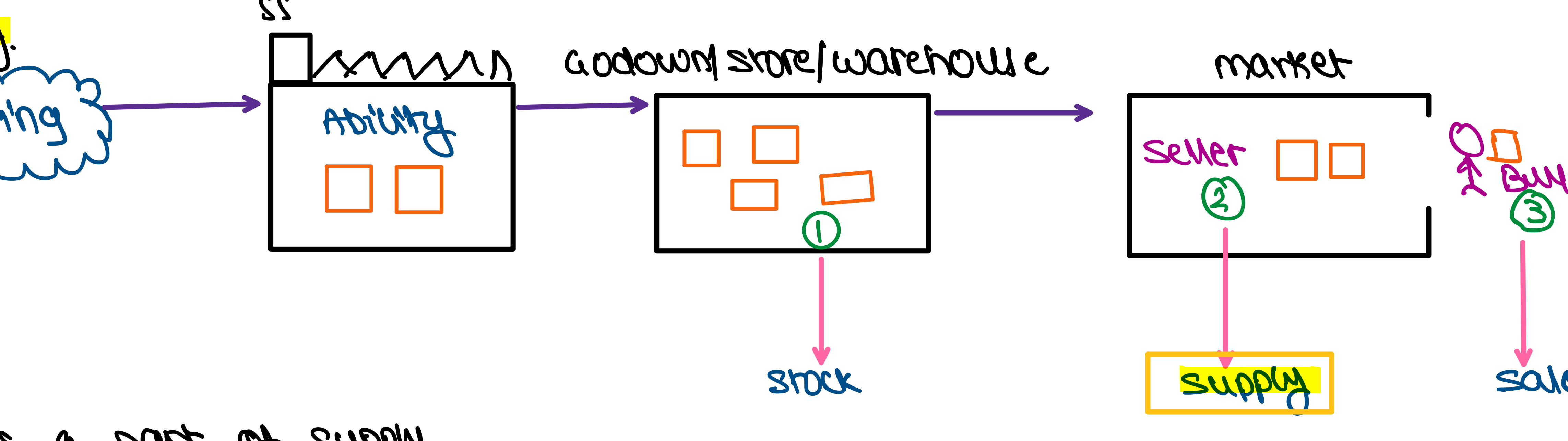


Chp: supply

Willing Producer



- A. Stock is a part of supply
- B. Supply is a part of stock

Determinants of supply

- Price of Goods:** *ceteris paribus* (other things being constant)
 - Price ↑ Supply ↑
 - Price ↓ Supply ↓
- Price of Related Goods:**
 - Price R ↑ Supply O ↓ Supply R ↑
 - Price R ↓ Supply O ↑ Supply R ↓
- Prices of Factors of Production:**
 - i. Land (rent)
 - ii. Labour (wages)
 - iii. Capital (interest)
 - iv. Entrepreneur (Profit/Normal Return)
 - Cost ↑ Supply ↓
 - Cost ↓ Supply ↑
- State of Technology:**
 - i. Advanced Technology → Supply ↑
 - Outdated Technology → Supply ↓
 - ii. Technology ✓ Cost ↓ → Supply ↑
 - iii. Spare capacity ✓ → Supply ↑
- Government Policies:**
 - Restrictions
 - Taxes
 - Subsidies
- Nature of competition & size of industry:**
 - competition ↑ → supply ↑
 - monopoly → supply ↓
- Expectations of prices:**
 - Future Price ↑ → Fp ↑ → supply today ↓ → supply future ↑
 - Future Price ↓ → Fp ↓ → supply today ↑ → supply future ↓
- Na. of sellers:**
 - sellers ↑ → supply ↑
 - sellers ↓ → supply ↓
- Other factors:**
 - Industrial Policies - (change)
 - Foreign policies - Import/Export
 - Goals of Firm - Targets
 - Infrastructure - Roads, Internet
 - Natural Factors - weather
 - Man-made Factors - Labour strike

Law of supply: Other things being constant

Price ↑ Supply ↑
Price ↓ Supply ↓

Exceptions: i. Supply of labour, Agricultural goods, Perishable goods

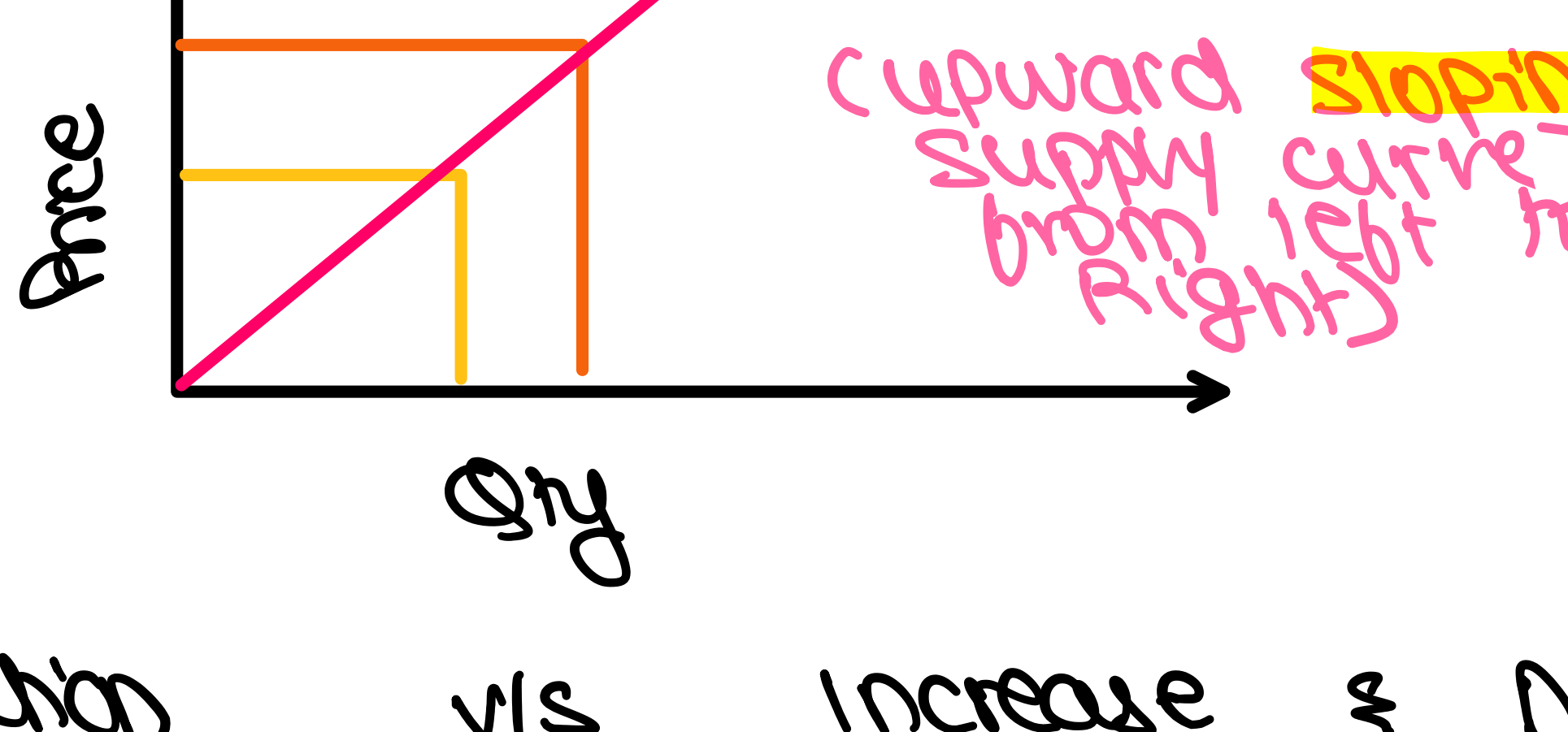
ii. Handicraft goods, Need for cash

Direct Relationship

Supply schedule

| Price | Quantity |
|-------|----------|
| 1 | 10 |
| 2 | 20 |
| 3 | 30 |
| 4 | 40 |
| 5 | 50 |

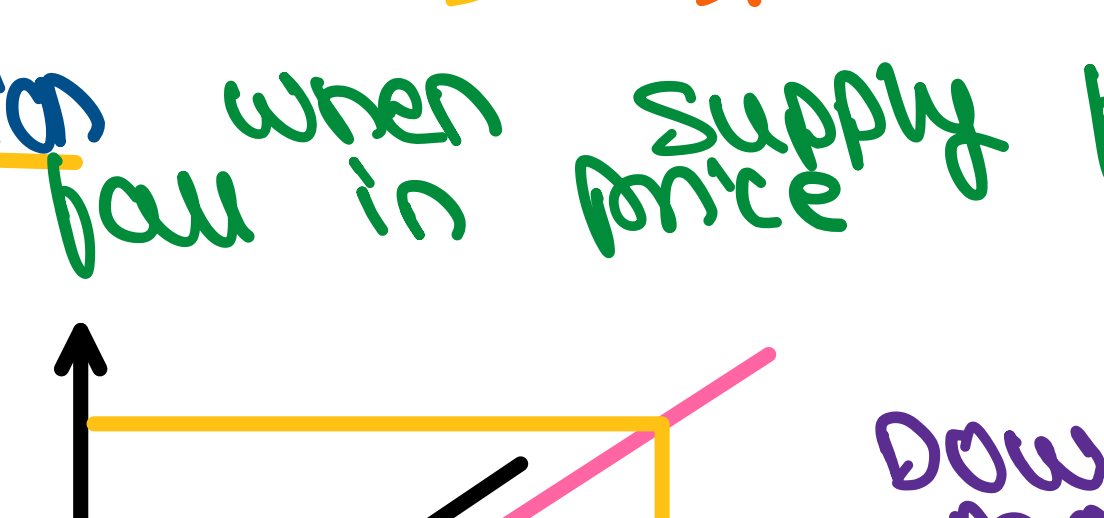
Supply curve



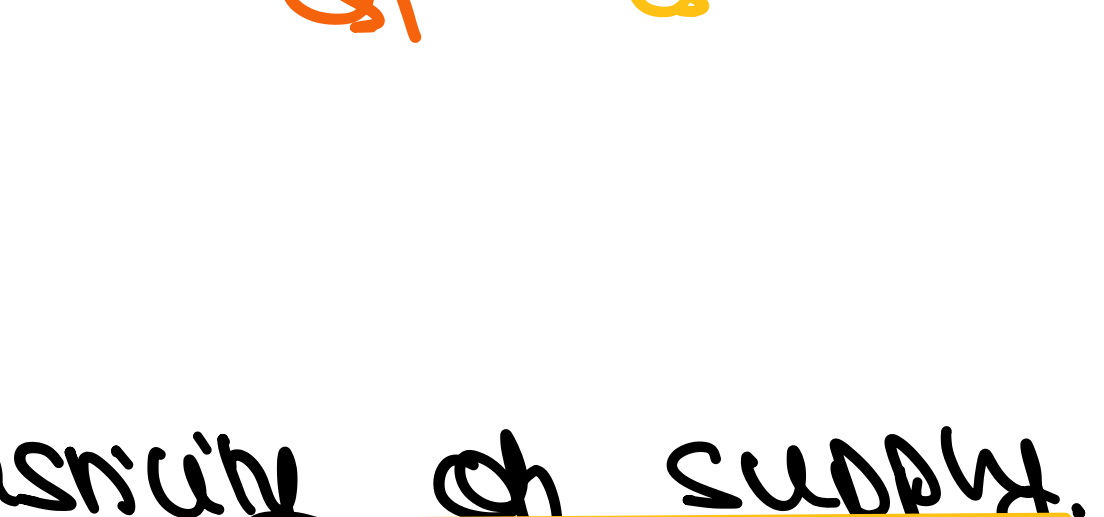
Expansion & contraction of supply

when there is change in supply due to price

Expansion: when supply rises due to rise in price



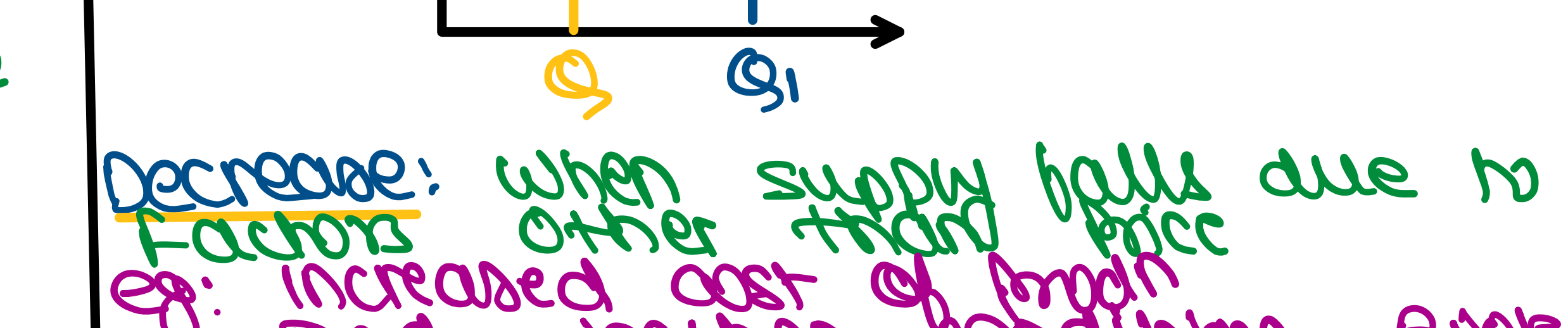
Contraction: when supply falls due to fall in price



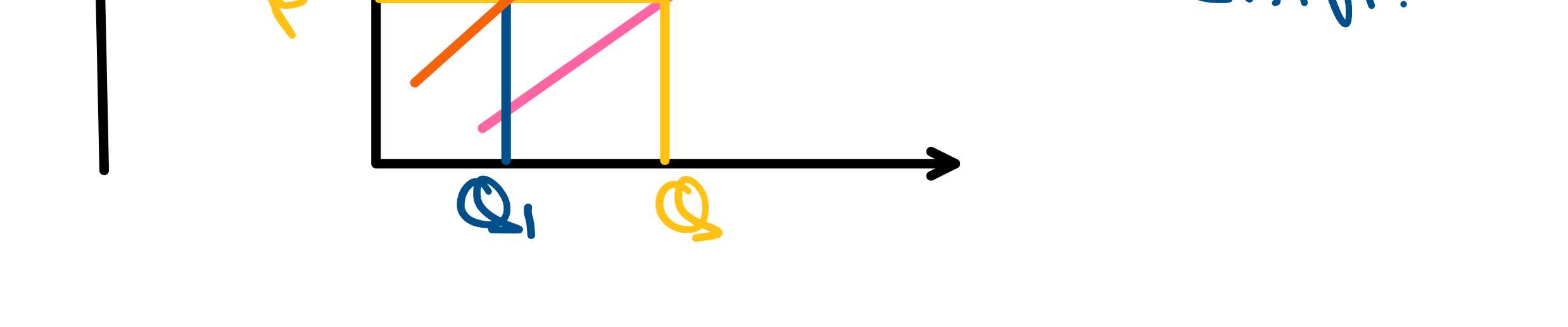
Increase & Decrease of supply

when there is change in supply due to factors other than price

Increase: when supply rises due to factors other than price



Decrease: when supply falls due to factors other than price



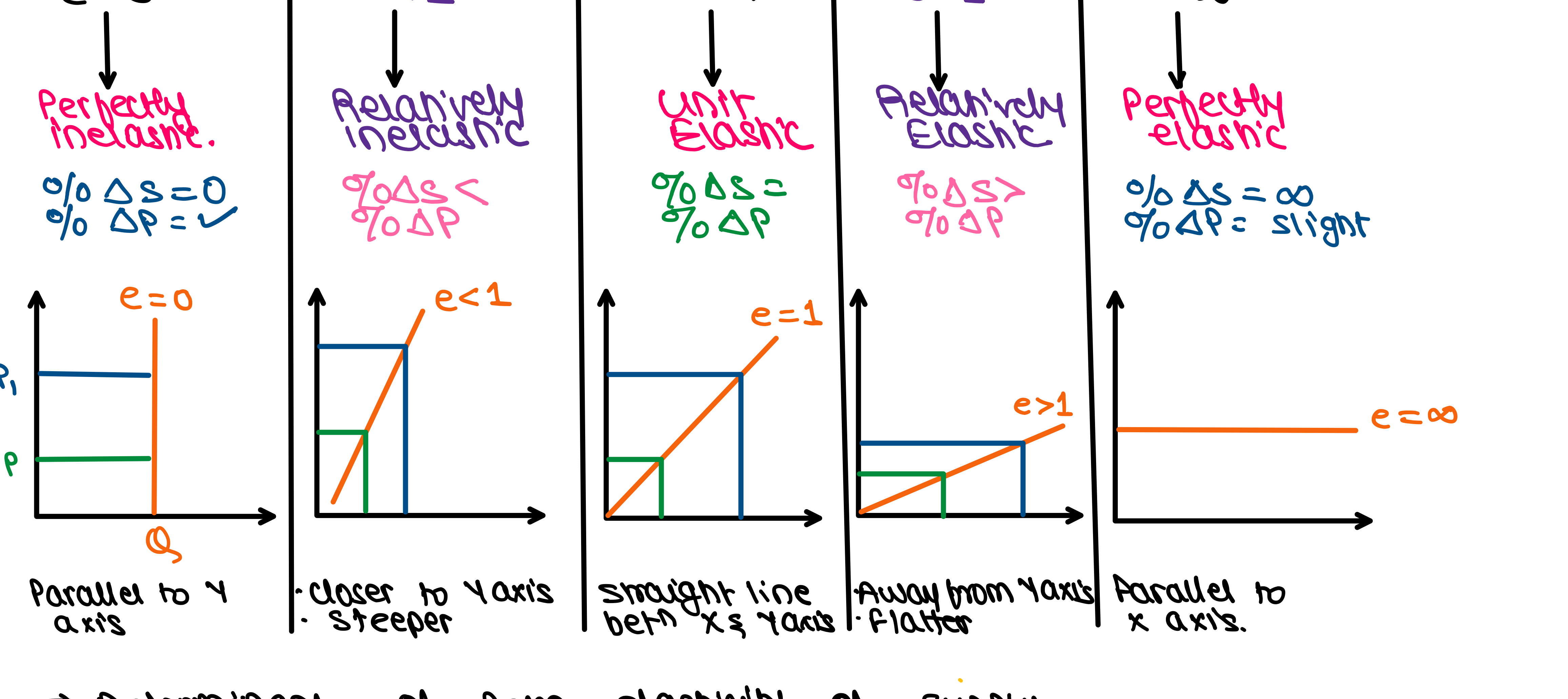
Elasticity of supply

sensitivity / responsiveness / reaction to change in supply due to factors affecting

Price Elasticity → Price k wajen se supply affect hora hai. Price is the Basis affecting supply

Formula = $\frac{s}{p} \rightarrow \frac{\Delta s}{\Delta p} \rightarrow \frac{\% \Delta s}{\% \Delta p}$

$$\frac{\frac{\text{New } s - \text{Old } s}{\text{Old } s} \times 100}{\frac{\text{New } p - \text{Old } p}{\text{Old } p} \times 100}$$

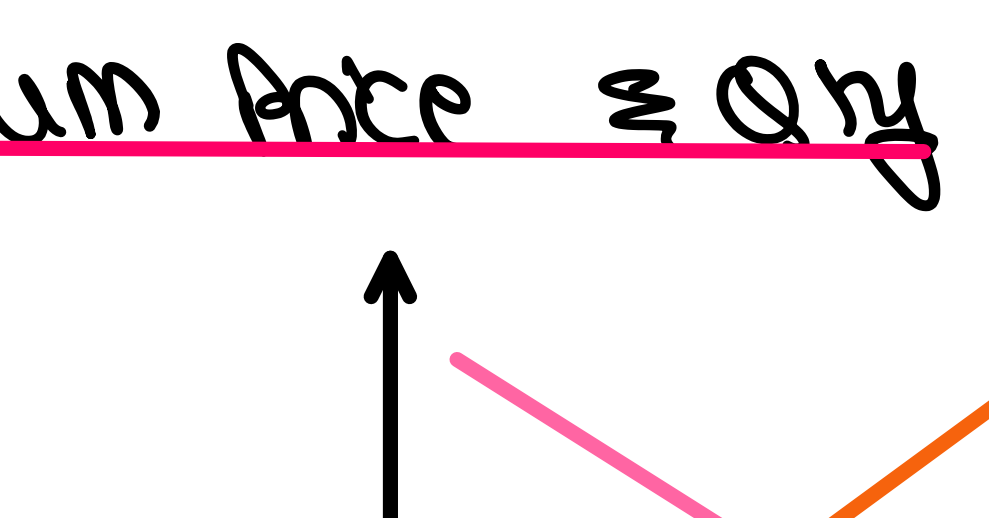


Determinants of price elasticity of supply

- Cost of Production:**
 - Price rises, cost of production rises substantially → e < 1
 - Price rises, cost of prod rises (less) negligible → e > 1
- Time to produce:**
 - Short time → e > 1
 - Long time → e < 1
- Time Period:**
 - Short Run → e < 1
 - Long Run → e > 1
- Key Raw material:**
 - Easy & cheaply Avail → e > 1
 - Difficult & costly to procure → e < 1
- Factor substitution:**
 - Easy, less training, low skill → e > 1
 - Difficult, more training, high skills → e < 1
- Capital / Labour:**
 - mobile → e > 1
 - immobile → e < 1
- Adequate stocks:**
 - Avbl, w/o losing value → e > 1
 - Avbl, w/ diminishing value → e < 1
- Price Expectations:**
 - High → current supply → e < 1
 - Low → current supply → e > 1
- Other factors:**
 - Large no. of sellers
 - High competition
 - Fewer Barriers → e > 1
 - Spare capacity: ✓ → e > 1, ✗ → e < 1
 - Short supply / longer delivery period → e < 1
 - Abundant supply / quick delivery → e > 1

Determination of Equilibrium Price

Demand: P ↑ D ↓, P ↓ D ↑



Supply: P ↑ S ↑, P ↓ S ↓



∴ **Equilibrium Price** = Qby

