



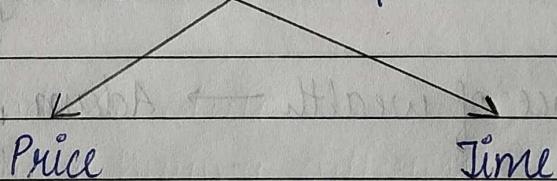
Ch2 Theory of Demand and Supply

UNIT 1: LAW OF DEMAND AND ELASTICITY OF DEMAND

* Desire + Ability to Pay + Willingness to spend = Demand
(At a given price at a given period of time)

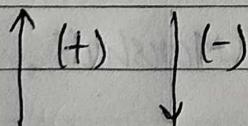
1. Desire
 2. Ability
 3. Willingness
 4. Price
 5. Time
- } Demand

* Demand = Flow and Relative concept



* Price and Quantity Demanded has an inverse relationship and has a downward or negative slope.

Why Negative slope?



$$(+)(-) = (-) \text{ so it is negative}$$



Q. When Qty. Demand comes?

→ Only when it is Price of a commodity then only Qty demand
should come.

Date:

Page No.: 19

* Factors / Determinants Affecting Demand

1. Price of a commodity
(Most Imp. Factor)

$\uparrow P \downarrow$ Qty Demand

$\downarrow P \uparrow$ Qty Demand

2. Income.

[Goods found in every household (between necessary & luxury goods)]

Normal Goods / Luxury Goods & Comfort Goods

Inferior Goods

Normal Goods / Luxury Goods = \uparrow Income \uparrow Demand

Inferior Goods = \uparrow Income \downarrow Demand

\downarrow Income \uparrow Demand

3. Price of Related goods

Complementary Goods

Substitutes Goods

Car

\uparrow Price

\downarrow Price

Petrol

\downarrow Demand

\uparrow Demand

Pepsi

\uparrow Price

\downarrow Price

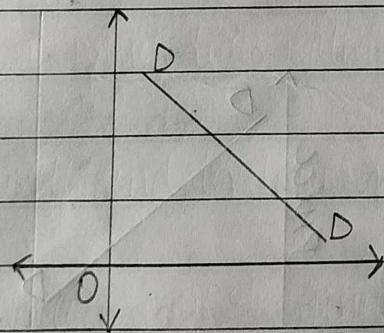
Coke

\uparrow Demand

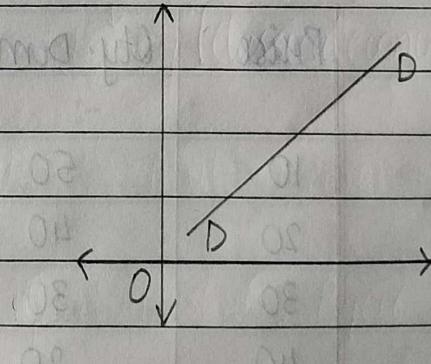
\downarrow Demand

Inverse Relation

Direct Relation



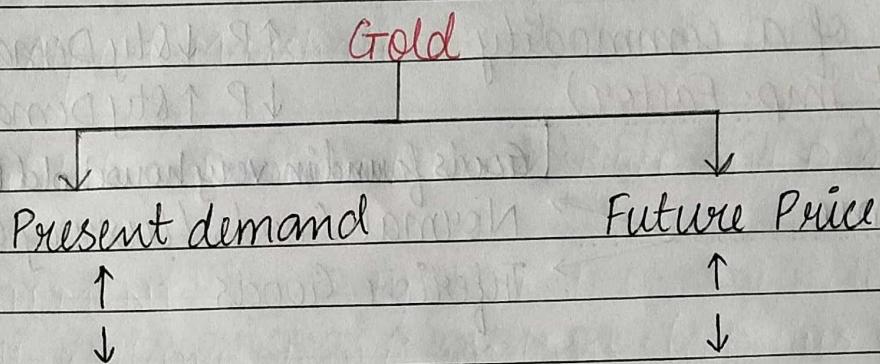
Downward Slope / Negative



Upward Slope / Positive



4. Expectation about Future Price



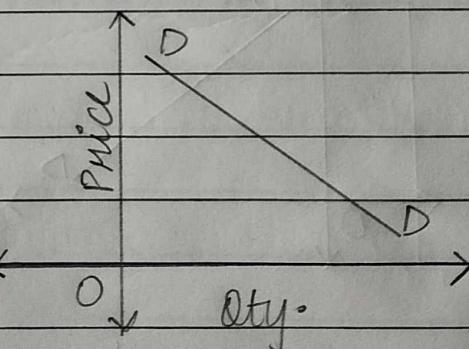
5. Advertisement
6. Distribution of Income
7. Population
8. Credit Facility (Loan)
9. Taste, habit and Fashion
10. Government Tax Policy

* DEMAND SCHEDULE

1. Individual Demand Schedule

When a single buyer buying different quantity of a commodity at a different prices at a point of time.

Price	Qty. Demand
10	50
20	40
30	30
40	20
50	10





2. Market Demand Schedule

Buying different quantity of a commodity at different price at a point of time.

Price	Mr.A	Mr.B	Mr.C	Market Demand (A+B+C)
1	50	60	70	180
2	40	50	60	150
3	30	40	50	120
4	20	30	40	90
5	10	20	30	60

* Horizontal summation of all individual demand curve gives Market Demand Curve.

* TYPES OF DEMAND

1. Direct demand :- consumer goods
Eg: Book, Pen, Umbrella, etc.
2. Indirect / Derived demand :- Producer goods or Factors of Production.
3. Composite demand (Multiple uses) :-
Electricity, Water, Wood, Milk
4. Competitive demand :- Substitute goods
5. Joint or Tied demand :- complementary goods like car and petrol.



Price will never
Remain constant

Gangpati Bappa
Morya
Mangal Murti
Morya

Date : _____
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LAW OF DEMAND

- o By Alfred Marshall
- o Qualitative Relation between

Higher the price lower the demand, lower the price higher the demand. (2)
This called as law of demand (2).

ceterius Paribus
higher the demand,
ceterius Paribus lower the
demand. (2) This is called as
law of demand. (2) Inverse
relation downward slope,
inverse relation negative slope.
(2). This is called as law of
demand. (2)

Alfred Baba ki Tai!! :)

STATEMENT

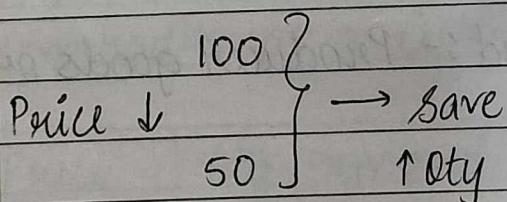
"Other things being constant (ceterius Paribus)
More Quantity will be demanded at lower price
and less quantity will be demanded at higher price.

* Why demand curve slopes downward?

1. Law of DMU
2. Various uses of commodity
3. Income effect

Law of substitution
effect and Income
effect both
concepts are
given by
HICKS And ALLEN

Imp **



4. Substitution effect

Pepsi Coke

Income effect
+
Substitution effect = Price effect

50/- 50/-

80/- 50/-

Price ↑ Demand ↓

LAW OF DEMAND

- o By Alfred Marshall
- o Qualitative Relation between Price and Demand

STATEMENT

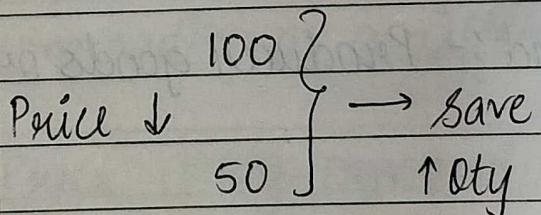
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- * Why demand curve slopes downward?

1. Law of DMU

2. Various uses of commodity

3. Income effect



Law of substitution effect and Income effect both concepts are given by HICKS And ALLEN

Imp **

4. Substitution effect

Pepsi Coke

50/-

50/-

80/-

50/-

Price ↑ Demand ↓

Income effect + Substitution effect = Price effect



* If I am wearing a watch and then saw the same watch in other's hand then I don't want to wear that watch Date : _____ will buy new watch which is again a unique. Page No.: 23
In short I want to be unique from others.

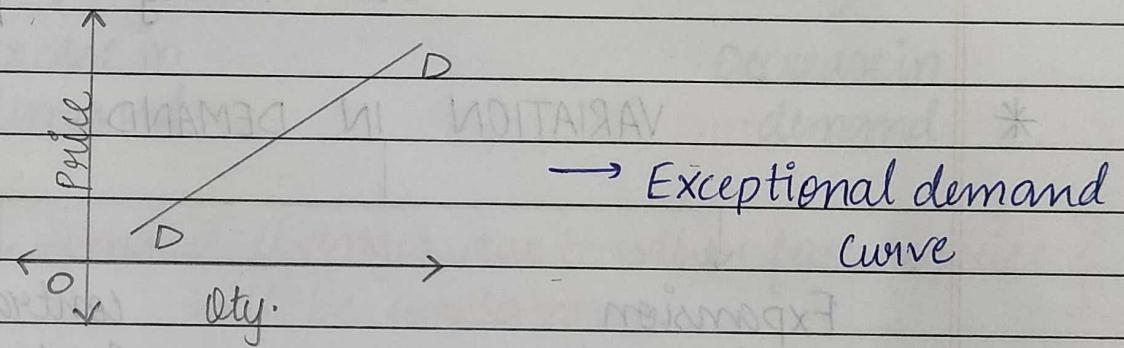
5. Number of consumers :- By giving offers, discount, etc

* EXCEPTIONS TO LAW OF DEMAND

Against the law

↑ Price ↑ Demand

↓ Price ↓ Demand



1. Giffen Goods :- Inferior goods Giffen Good → Robert Giffen
 ↑ Price ↑ Demand Prestige Goods → Veblen

2. Conspicuous Goods / Prestige / Snob / Veblen (T.) Goods :-
 * appeal/behaviour

3. Future Expectations About Price :-

↑ Demand ↑ Future
↓ Demand ↓ Future

4. Ignorance Effect :-

5. Consumer Price Illusion :-



Q. Difference between price illusion and speculative motive

→ Price illusion → to save money

Speculative motive → to earn profits

Date : _____
Page No.: 24

to copy others

6. Demonstration Effect / Bandwagon Effect /
Conspicuous Necessity (copying others) :-

7. Impulsive purchase:-

8. Demand for Necessaries :-

Eg: Tata steel → going to reach 135

9. Speculative motive :-
Eg: Price of shares

£105 × 100 Qty ↑

£115 × 100 Qty ↑

£129 × 100 Qty ↑

direct / upward /
positive

*

VARIATION IN DEMAND

Expansion
in demand

(Rise in demand due
to fall in price)

contraction
in demand

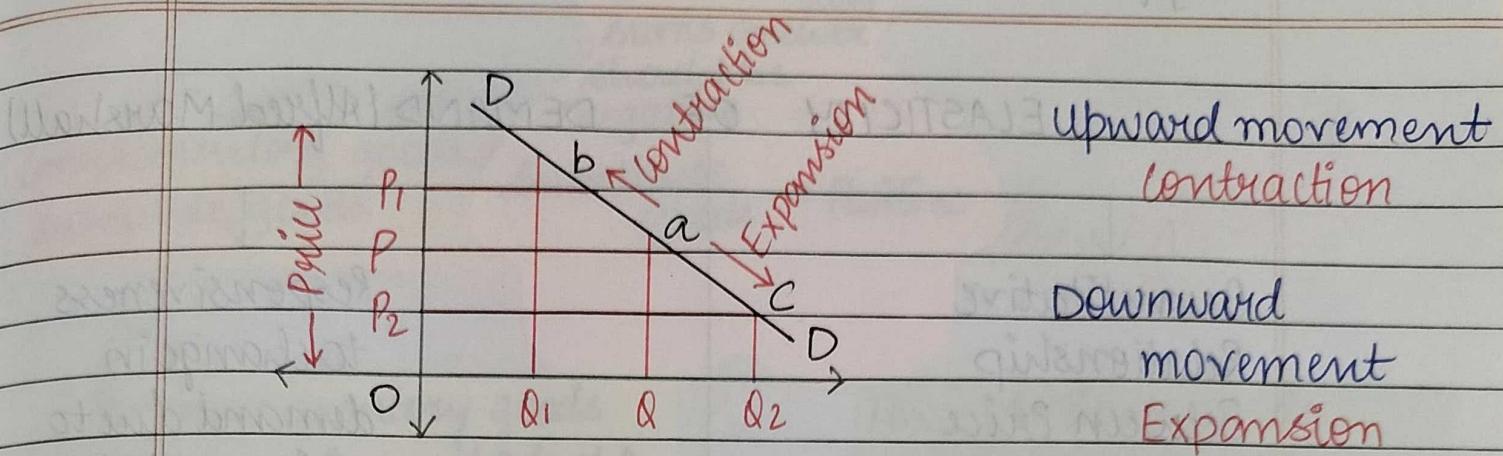
(Fall in demand due
to rise in price)

{ when demand changes to price only }
[other factors will remain constant.]

* Also known as change
into Qty demand

Movement along the same
demand curve.

Slope ek hi curve per ha so
the movement is along the
same demand curve.



*

CHANGE IN DEMAND

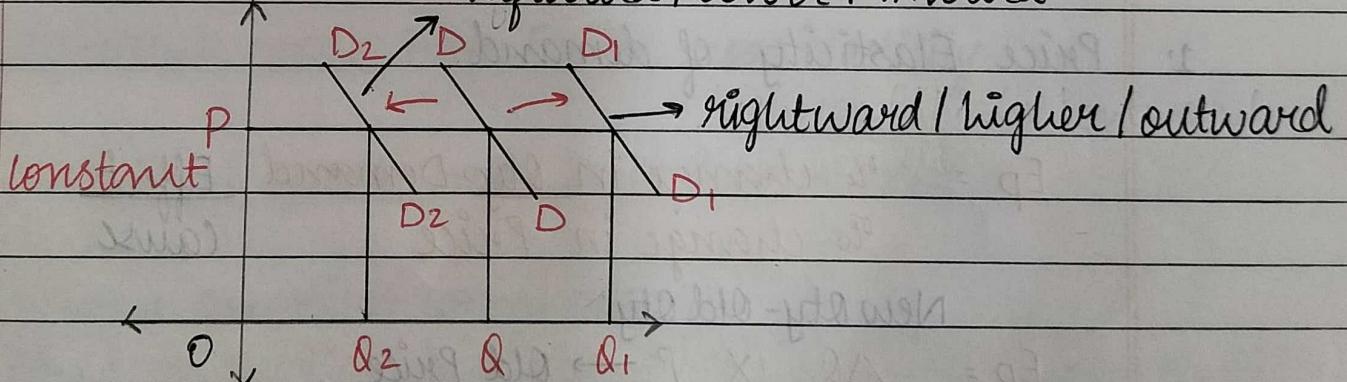
Increase in
demand

Decrease in
demand

{ When demand changes due to other factors price
will be constant.

Also known as Shift in Demand Curve

leftward / lower / inward





Short period/complementary goods → inelastic
long period/substitute goods → elastic

ELASTICITY OF DEMAND (Alfred Marshall)

Quantitative
Relationship
Between Price
and Demand

Responsiveness
to change in
demand due to
price and other
factors

P.Y Price - 15
C.Y Price - 20 ↓ change

(changes/fluctuates)

Eg: Basic necessities
Irrespective of the price

(no change)

* TYPES OF ELASTICITY OF DEMAND

1. Price Elasticity of demand

$$EP = \frac{\% \text{ change in Qty. Demand}}{\% \text{ change in Price}} \quad \begin{matrix} \text{Effect} \\ \text{Cause} \end{matrix}$$

New Qty - Old Qty

$$EP = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P} \rightarrow \frac{\text{Old Price}}{\text{New price} - \text{Old price}}$$

2. Income Elasticity of demand

$$Ey = \frac{\% \text{ change in Qty. Demand}}{\% \text{ change in Income}}$$

$$Ey = \frac{\Delta Q}{Q} \times \frac{Y}{\Delta Y}$$



Short period / complementary goods → inelastic
long period / substitute goods → elastic

Date : _____
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ELASTICITY OF DEMAND (Alfred Marshall)

Quantitative
Relationship
Between Price
and Demand

Responsiveness
to change in
demand due to
price and other
factors *

P.Y → 100
C.Y → 85 ↓
decrease

Elastic
Demand

(changes / fluctuates)

Inelastic
Demand
(no change)

* TYPES OF ELASTICITY OF DEMAND

1. Price Elasticity of demand

$$EP = \frac{\% \text{ change in Qty. Demand}}{\% \text{ change in Price}} \quad \begin{matrix} \text{Effect} \\ \text{Cause} \end{matrix}$$

New Qty - Old Qty

$$EP = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P} \rightarrow \text{Old Price}$$

Old Qty ← Q New price - old price

2. Income Elasticity of demand

$$Ey = \frac{\% \text{ change in Qty. Demand}}{\% \text{ change in Income}}$$

$$Ey = \frac{\Delta Q}{Q} \times \frac{Y}{\Delta Y}$$



3. Cross Elasticity
complementary goods
substitute goods

Numerical sums
if complementary
sums answer
should be
negative
Substitute
goods → Positive

For complementary goods
Price fall ↓ Demand Petrol ↑

P_B
 ΔP_B

For substitute goods
Coke price ↑ Demand for Pepsi ↑

4. Advertisement Elasticity of demand

$$E_a = \frac{\% \text{ change in Qty D}}{\% \text{ change in Adv. exp.}}$$

When elasticity is given without any qualification then it is always Price Elasticity of demand.

- * Complementary goods have negative cross elasticity
- * Substitute goods have Positive cross elasticity.
- * Unrelated goods have zero cross elasticity.

** When a question comes as →

1. What is elasticity of demand? (It has asked only for elasticity)
→ Explain price elasticity, its formula and the formula in numerical.
2. Types of elasticity of demand? (It has asked only for elasticity)
→ Explain types of price elasticity.

Cross Elasticity of demand

$EC = \frac{\% \text{ change in Qty D of Product A}}{\% \text{ change in Price of Product B}}$

$$EC = \frac{\Delta Q_a}{Q_a} \times \frac{P_b}{\Delta P_b}$$

For substitute goods
Coke price ↑ Demand for ↑ Pepsi

Advertisement Elasticity of demand

$Ea = \frac{\% \text{ change in Qty D}}{\% \text{ change in Adv. exp.}}$

When elasticity is given without any qualification then it is always Price Elasticity of demand.

Complementary goods have negative cross elasticity.

Substitute goods have positive cross elasticity.

Unrelated goods have zero cross elasticity.

When a question comes as →

What is elasticity of demand? (It has asked only for elasticity)
Explain price elasticity, its formula and the formula in numerical.

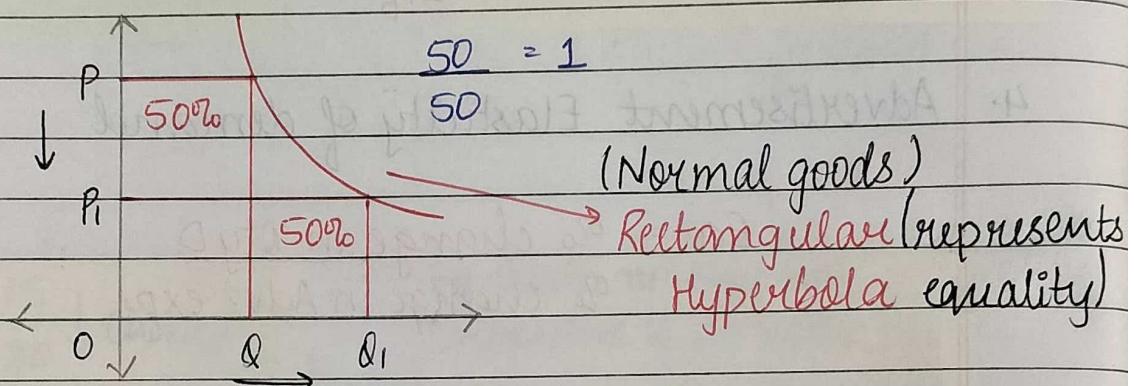
Types of elasticity of demand? (It has asked only for elasticity)
Explain types of price elasticity.



* Types of Price Elasticity of Demand

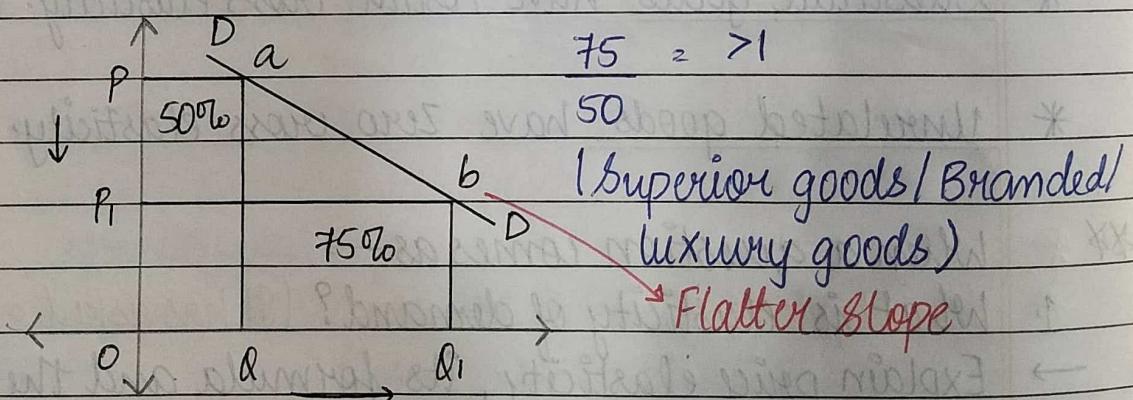
1. Unitary Elastic Demand ($e = 1$) Also known as uniform elastic

% change in Qty. demand is equal to % change in Price.



2. Relatively Elastic Demand Curve (more elastic) ($e > 1$)

% change in Qty. demand is greater than % change in Price.



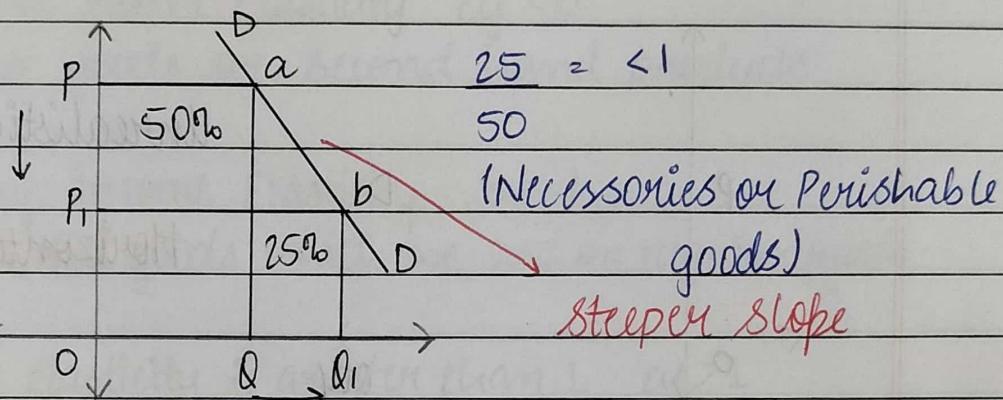
** When a question comes as →

1. Explain elastic demand

→ Explain relatively / more / high elastic demand.

- Also known as low elastic demand
3. Relatively Inelastic demand / Less elastic demand ($e < 1$)

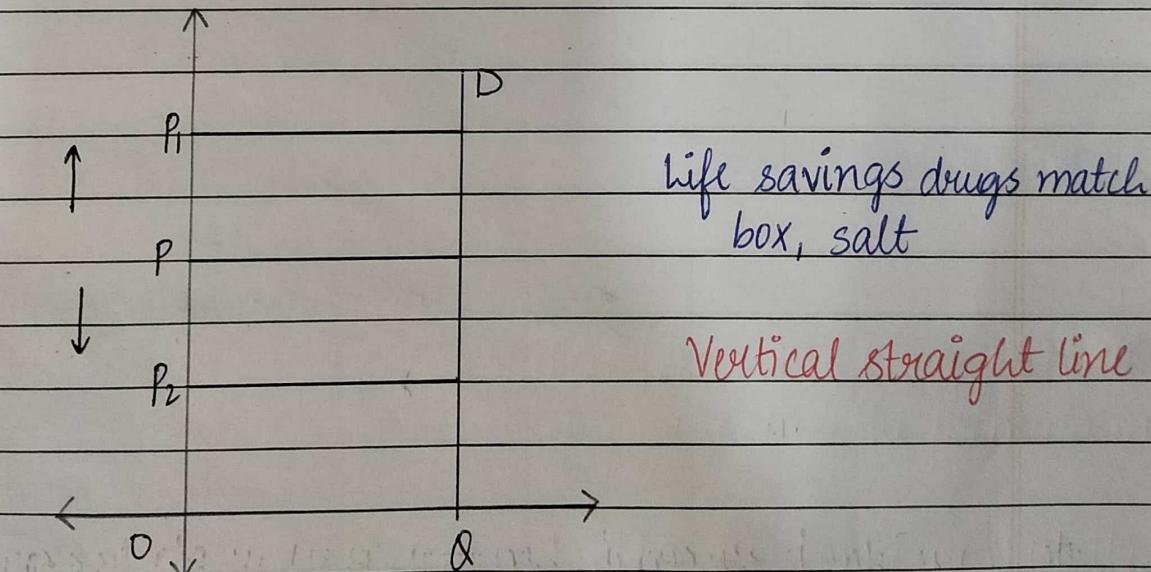
% change in Qty. Demand will be lesser than % change in price



is imaginary always

4. Perfectly Inelastic demand ($e=0$) (No change)

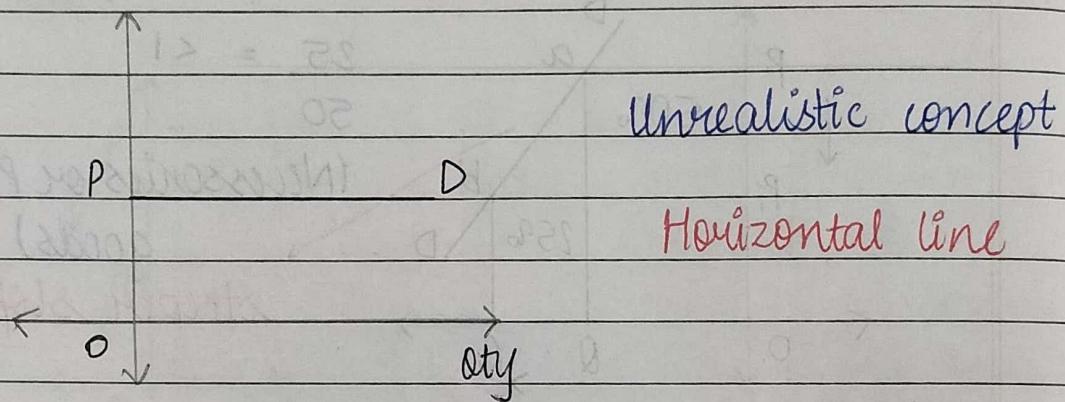
Slight change in a price of a commodity leads to no change in Qty. demand.





5. Perfectly Elastic Demand ($e = \infty$) (Imaginary, doesn't exist in R.W)

Slight change in a price leads to infinite change in
Qty. demand





* Types of Income Elasticity of Demand

1. Zero Elasticity $e_y = 0$

Eg:- salt, newspaper, life saving drugs, matchbox.

2. Negative Income Elasticity $e_y < 0$

Inferior goods or second hand products

3. Unitary Income Elasticity $e_y = 1$

Eg:- Normal goods which we use on regular basis.

4. Income elasticity is greater than 1 $e_y > 1$

Eg:- Superior goods / luxurious goods.

5. Income elasticity less than 1 $e_y < 1$

Eg:- Necessaries or Perishable goods



* Methods for measuring elasticity of demand

1. Ratio or percentage Method
(Same as Price Elasticity of Demand)

2. Total Outlay Method

One men's expenditure is other men's revenue

Expenditure Method

Revenue Method

Pocket se kitna paisa gaya. [TO]

Alfred Marshall

Price ↑ or ↓
Total Outlay remains same

$\$10 \times 12 = 120$ Jab price low hua
 $8 \times 15 = 120$ tabhi bhi same demand hua

↑P ↓TO ↓P ↑TO

Inverse Relation

Price kam to → 2yda

↑P ↑TO ↓P ↓TO

Direct Relation

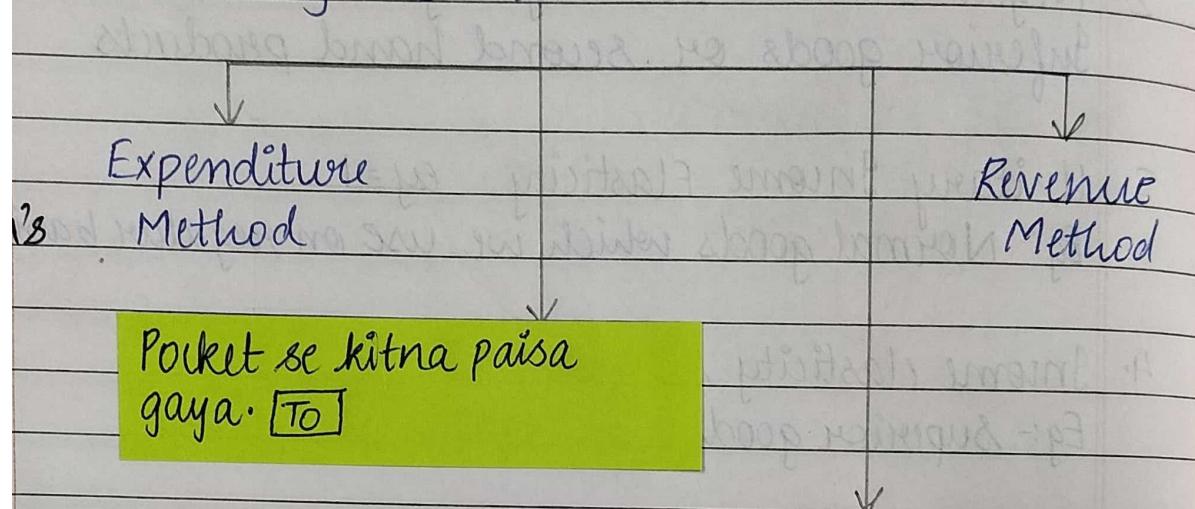
Price kam to kam

Case	Price	Qty	To(Total Outlay)	Elasticity
	12	120		$e = 1$
	15	120		Unitary elastic
	12	120 ↑		$e > 1$
	20	160 ↑		Elastic Demand
	12	120		$e < 1$
	14	112		Inelastic Demand

Methods for measuring elasticity of demand

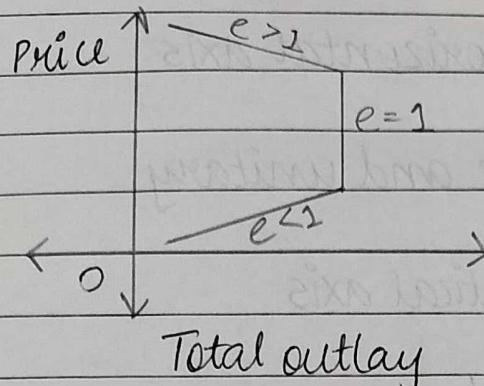
Ratio or percentage Method
(Same as Price Elasticity of Demand)

Total Outlay Method



Alfred Marshall

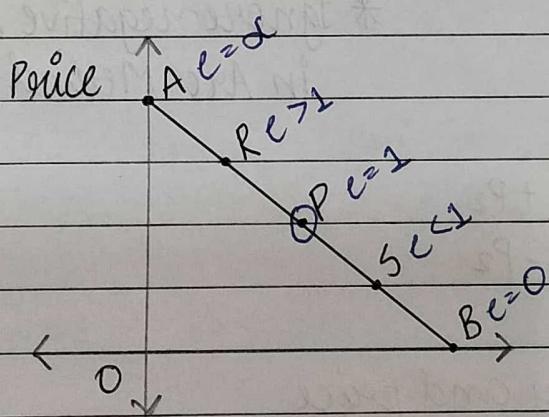
Case no	Price	Qty	To(Total outlay)	Elasticity
1	10 ↓ 8	12 ↓ 15	120 ↓ 120	$e = 1$ Unitary elastic
2	10 ↓ 8	12 ↓ 20	120 ↑ ↓ 160 ↑	$e > 1$ Elastic Demand
3	10 ↓ 8	12 ↓ 14	120 ↓ 112	$e < 1$ Inelastic Demand



- * Vertical straight line parallel to y-axis in total exp. method indicates unitary elastic demand.

3. Point or Geometric Method

$$E_d^l = \frac{\text{Lower segment}}{\text{Upper segment}} = \frac{L}{U}$$



$E_d^l = \left[\frac{dq}{dp} \times \frac{P}{q} \right]$ Demand in (-)
Supply in (+)

when change in the price is very small, negligible then this method will be used

Eg: Computer price changed from 50,000 to 50,100
negative

- * Downward sloping straight line linear demand curve touching both the axis.

$$e = 1$$

$e > 1$	$PB = 2$	$SB = 1$	$RB = 3$	O	AB
$e < 1$	2	3	1	BO	0
$e = 0$	$e = 1$	$e < 1$	$e > 1$	$e = 0$	$e = \alpha$
$e = \alpha$					

X-axis / horizontal / output axis → X-axis

Y-axis / vertical / Price axis → Y-axis

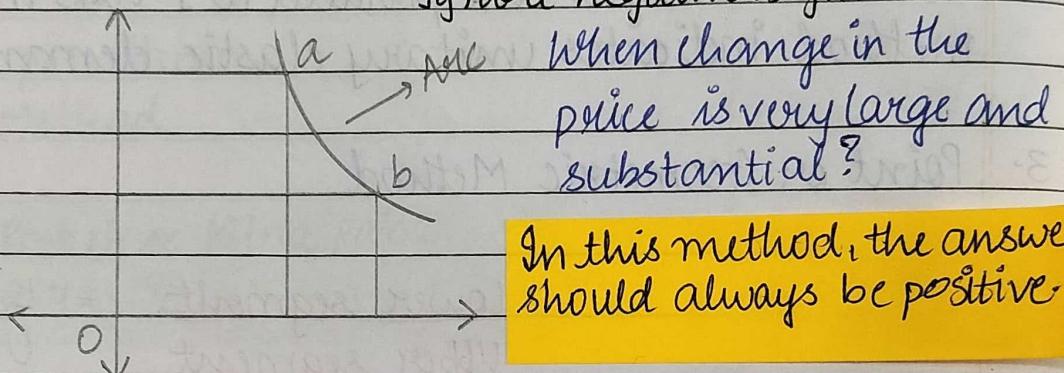


Point which lies on horizontal axis

Point which lies infinite and unitary

Point which lies on vertical axis

4. Arc Elasticity Method (Answer should always be in plus
Ignore negative sign)



* Ignore negative sign
in Arc Method

$$Ed = \frac{Q_1 - Q_2}{Q_1 + Q_2} \times \frac{P_1 + P_2}{P_1 - P_2}$$

$Q_1, P_1 \rightarrow$ Old quantity and price

$Q_2, P_2 \rightarrow$ New quantity and price



* Factors Affecting Elasticity of Demand

1. Availability of substitutes

Substitutes → elastic

No Substitutes → Inelastic

2. Position of commodity in consumer's budget

occupys small part of our Budget - Inelastic

e.g.: matchbox

Occupies large part of our Budget - Elastic

e.g.: Transportation changes.

3. Nature of a commodity

Necessities - Inelastic

Luxuries goods - Elastic

4. Number of uses

Multiple use → Elastic

Single use → Inelastic

5. Time period

Short Time - Inelastic

Long Time - Elastic



6° Consumer Habits

Addicted / Habits → Inelastic

No such habits → Elastic

7. Joint demand

Complementary goods → Inelastic

They have low elasticity

* Imp.

8. Price Range

Very high price product and a very low price product — Inelastic demand

e.g.: car, milk

Medium Price Product → Elastic demand

Shoes, Clothes, Accessories



UNIT 2: Consumer Behaviour

Consumer Behaviour
↓
wants

"All desires, tastes, motive, need of human beings are called as wants."

- * Wants are unlimited
- * Wants are recurring
- * Wants are competitive
- * Wants are complementary
- * Wants are changing with time, place, person.

CLASSIFICATION OF WANTS

1. Necessaries → (Basic wants)

2. Comforts → A.C, Two-wheeler, Chair.

3. Luxuries → Lavish Birthday, Rolex Watch.

* Utility → Abstract term

1. Want satisfying power of a commodity

2. Capacity of a commodity to satisfy a human want.

Want means wish to have something

Desire means movement you put efforts it becomes desire.



* FEATURES OF UTILITY

1. Subjective concept :-

Differs from person to person

2. Differs from usefulness :-

Commodity may be given utility but not useful for health.

Eg:- Alcohol

3. Relative concept

Related to place and time.

4. Depends on intensity of want

5. Differs from satisfaction

6. May not always give you Pleasure.

Injections, Medicine.

* TYPES OF UTILITY

1. Place Utility :- Transport

2. Time Utility :- Warehouse

3. Form Utility :- Manufacturing process

4. Service Utility :- Professional services

5. Knowledge Utility :- Internet, Mobile

6. Possession Utility :- Transfer of ownership



* LAW OF DIMINISHING MARGINAL UTILITY (1 commodity)

MR. GOSSEN'S
1st LAW

ALFRED MARSHALL
(POE 1890)

CARDINAL
APPROACH

2nd law → Equi marginal utility → 3 commodity

* STATEMENT

"Other things being constant
Additional benefit which a person derives from increase in a stock of thing diminishes with every increase in a stock that he already has."

Total utility, $TU = \Sigma MU$

Utility derived by a consumer after consuming all units of a commodity.

Marginal utility $MU_n = TU_n - TU_{n-1}$

OR

Utility derived by a consumer after consuming an additional unit of a commodity OR Addition made to total

Use second formula $MU = \frac{\Delta TU}{\Delta Q} \rightarrow$ Change in total utility
for sums $\Delta Q \rightarrow$ Change in total quantity

No. of units	TU	MU	
1	10	10	→ Highest satisfaction
2	18	8	
3	22	4	
4	22	0	→ Full satisfaction
5	20	-2	→ Disutility / dissatisfaction

- * Shape of Total utility → Inverted U shape of TU
- * Marginal utility is also known as → Demand curve



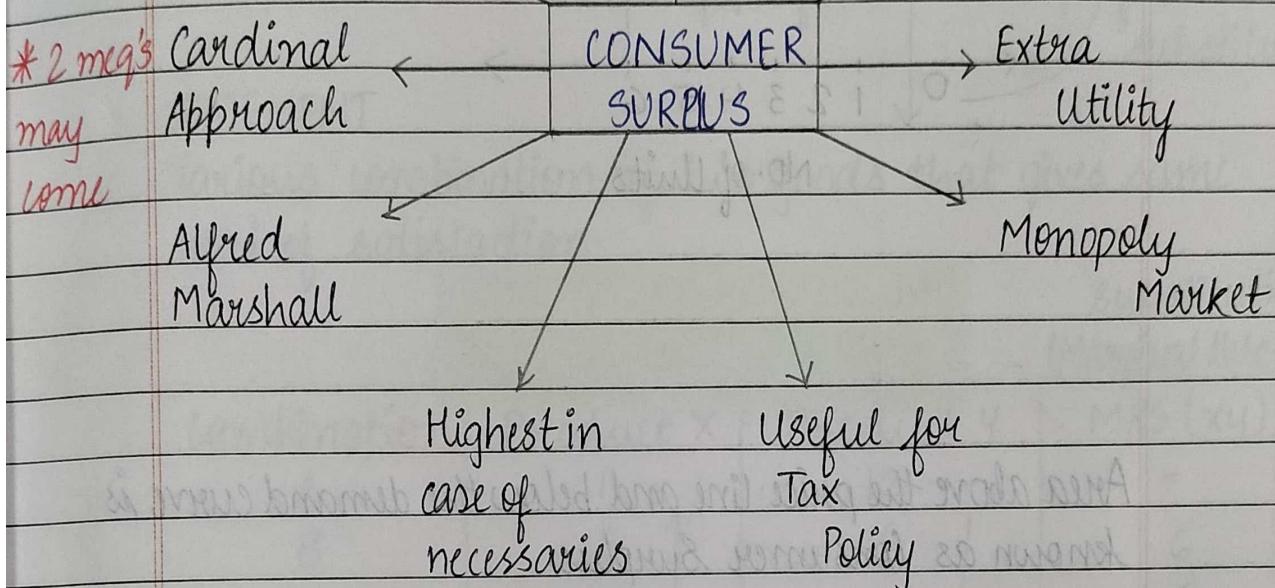
* ASSUMPTIONS

1. Homogeneity
2. Single Use
3. Rationality
4. Continuity - It should be consumed back to back without any time gap
5. Reasonability \rightarrow Shape, size
6. M.U. of money constant
M.U. for rich people is less



* CONSUMER SURPLUS (Not completely Realistic) (5 Marks)

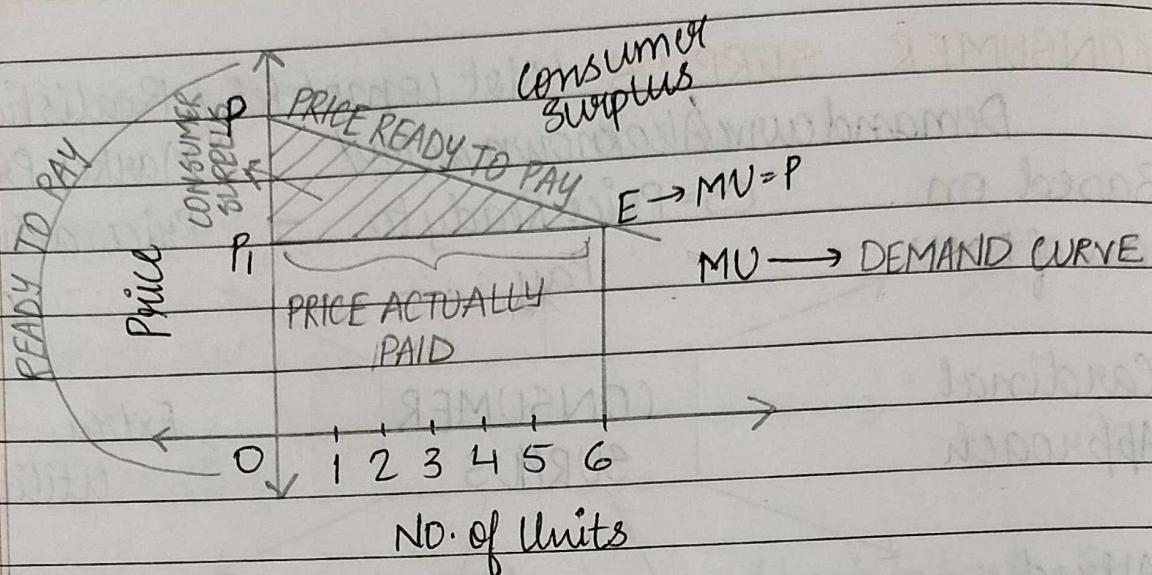
Demand curve / Also known as MU Market Price / MRP /
 Based on $CS = \text{Price Ready to Pay} - \text{Price actually paid}$
 law of DMU



No. of units	Ready to Pay	Price actually Paid	Consumer Surplus
1	30	20	10
2	28	20	8
3	26	20	6
4	24	20	4
5	22	20	2
6	20	20	0 MU = P
7	18	20	-2 MU < P

Also called as M.U. as it gives additional utility.

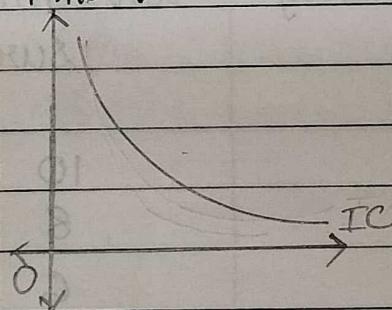
Also known as Money



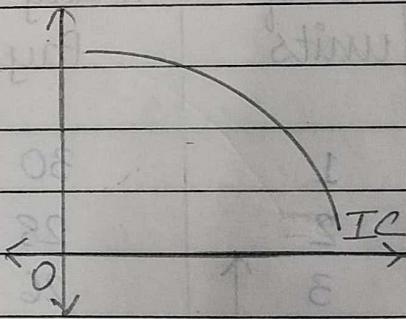
The Relation is inverse
 \therefore There's a downward sloping curve.

Area above the price line and below the demand curve is known as Consumer Surplus.

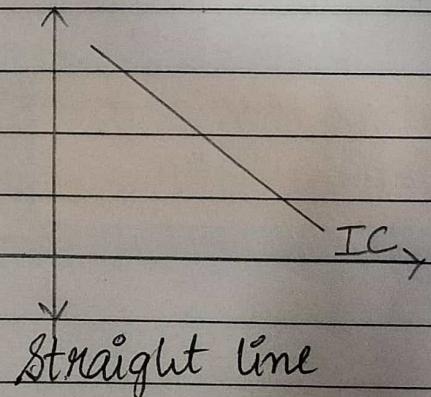
MRS \downarrow



MRS \uparrow



MRS [constant]





मुझे फरक नहीं पड़ता

A person / consumer is neutral

INDIFFERENCE CURVE ANALYSIS

Hicks and
Allen's

Ordinal

Approach
(scale of preference)

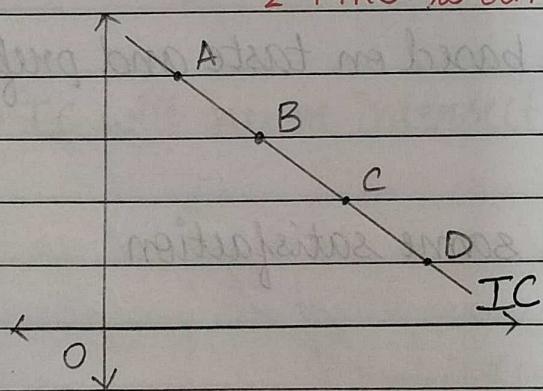
Also called as
Normal close substitutes
Goods
(imperfect
substitution)

STATEMENT

Various combination of two goods that gives same level of satisfaction.

Combination	Product X	Product Y	MRS (xy)
A	1	12	-
B	2 ↑	6 ↓	6
C	3 ↑	4 ↓	2
D	4	3	1

Assumptions:-
1. Only two goods
2. MRS is diminishing



Inverse Relation →

Downward slope

(Convex) (MRS is decreasing)

3 names:-
1) Transitivity (movement)
2) Trade off (sacrifice)
3) Substitution

Point on the
curve → Locus

* Slope of I.C

* Indifference curve:-

Downward, convex, MRS fall

$$MRS = \frac{MU_X}{MU_Y}$$

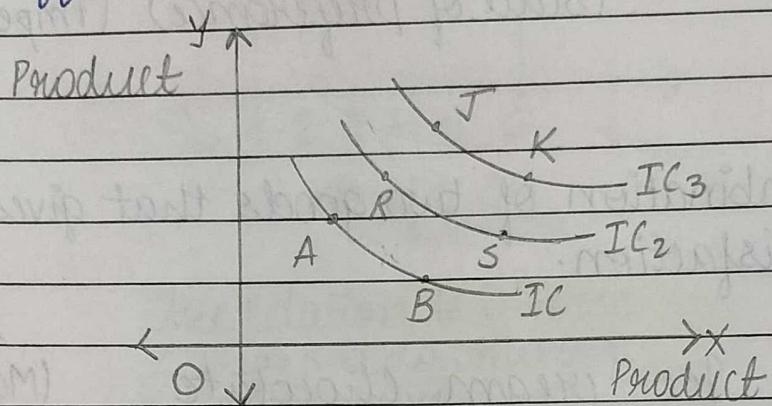
* Movement from A to B, B to C, etc. has 3 names

Q. Reason behind falling MRS → It is an assumption



* INDIFFERENCE MAP

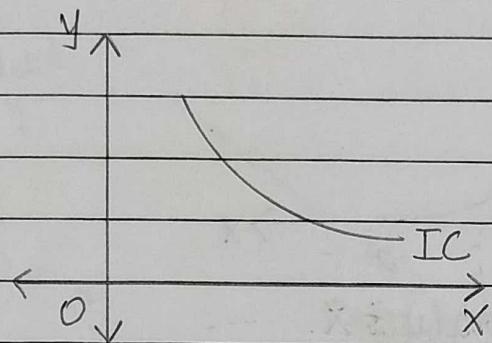
A set or family of indifference curve gives indifference map.



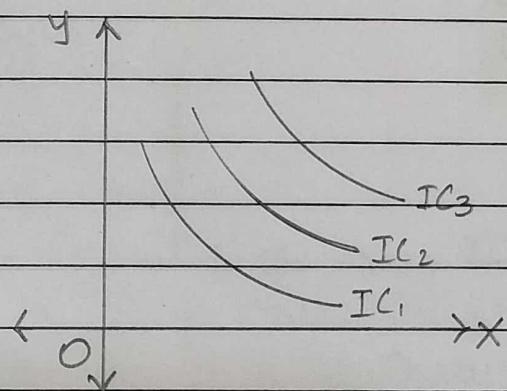
- * The curve which is far from the origin = Higher satisfaction
- * The curve which is near from the origin = Lower satisfaction
- * Indifference map is based on taste and preference of consumer.
- * Point on same curve same satisfaction
eg: $A=B$
 $R=S$
 $J=K$
- * Point on the different curve different satisfaction
eg: $A \neq R \neq J$
 $B \neq S \neq K$

* Properties of IC

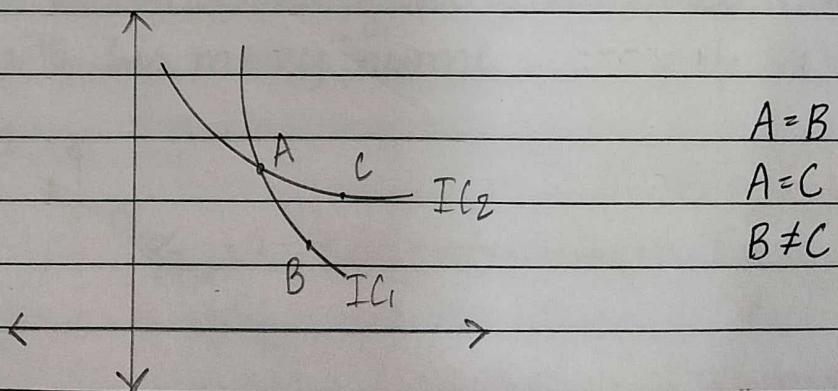
1. TC is downward sloping and convex



2. Higher IC gives higher satisfaction

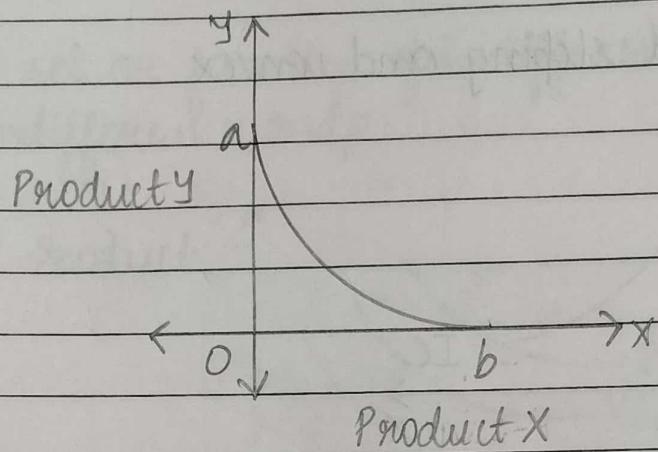


3. Two IC will never intersect each other



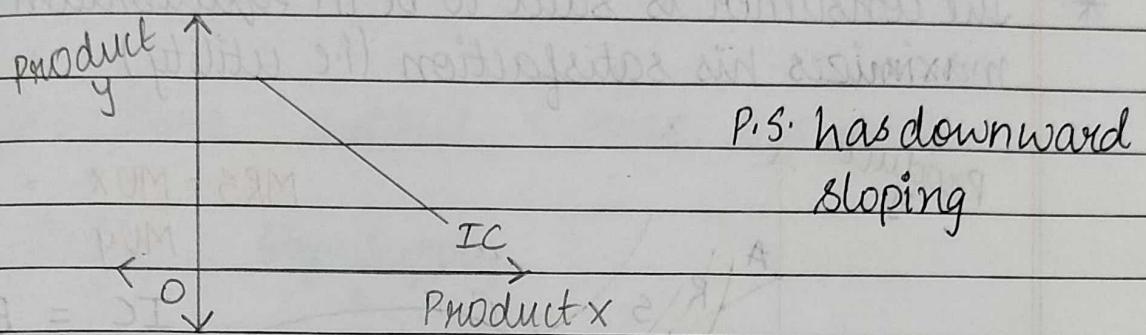


4. IC will never touch the axis



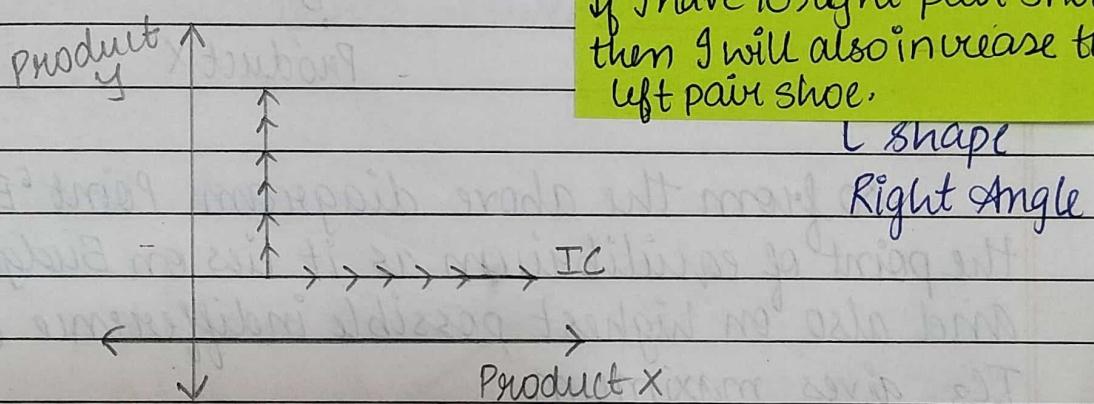
* EXCEPTIONS TO IC (Unrealistic)

1. Perfect substitutes MRS is constant



P.S. has downward sloping

2. Perfect complementary MRS is zero



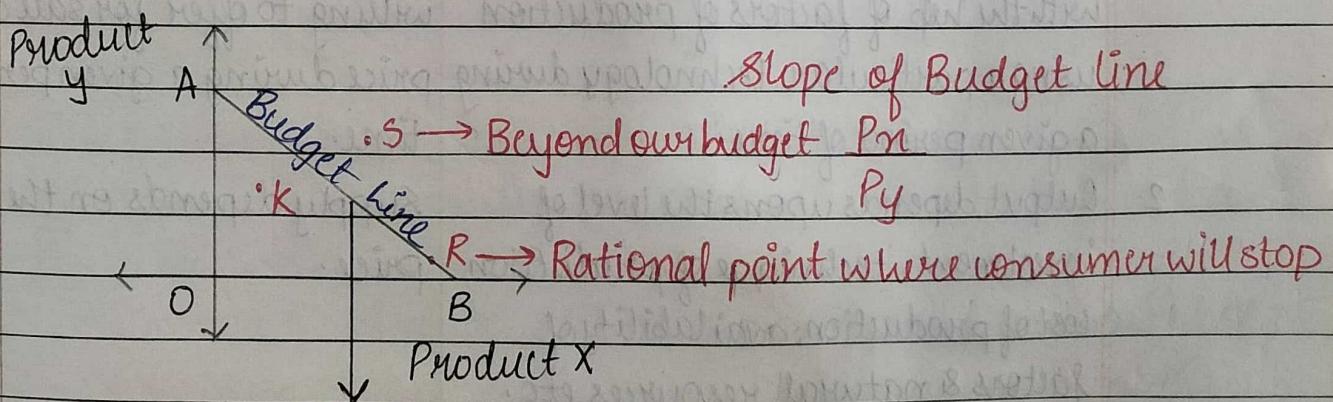
If I have 10 right pair shoes
then I will also increase the
left pair shoe.

L shape

Right Angle

* BUDGET LINE / PRICE LINE

Various combinations of two goods which a consumer can buy with his money income



Slope of Budget line

$\frac{P_x}{P_y} \rightarrow$ Beyond our budget P_x

P_y

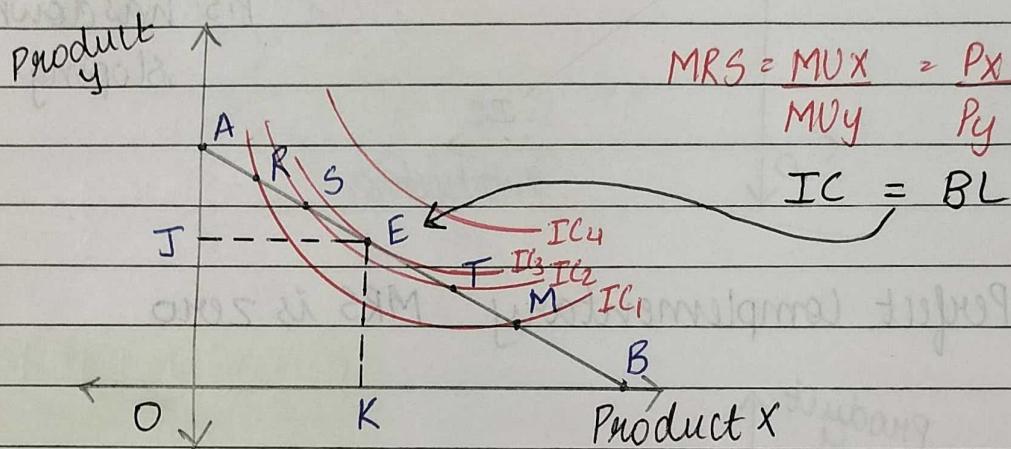
$R \rightarrow$ Rational point where consumer will stop

This line is called as -
Downward sloping constant
budget line touching both axis.



CONSUMER EQUILIBRIUM

- * It is a point where satisfaction is equal to budget.
- * The consumer is said to be in equilibrium when he maximizes his satisfaction (i.e. utility)



So from the above diagram Point 'E' is the point of equilibrium as it lies on Budget line and also on highest possible indifference curve. IC_3 gives maximum.

Output

1. Output refers to the total quantity of a commodity that a producer produces using a particular technology during a given period of time.
2. Output depends upon the level of investment, technique of production, cost of production, availability of factors & natural resources, etc.
3. Output forms the basis of stock.
4. Output is a function of input.

Stock

1. Supply refers to the quantity of a commodity which producers are willing to offer for sale at a given price during a given period of time.
2. Supply depends on the stock & price.
3. Stock forms the basis of supply.
4. Supply is a function of stock.



* Anything which is available with seller to sell is called Stock.

Flow concept

Demand Supply Income

Date :

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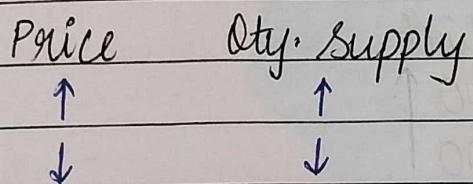
SUPPLY

Anything which is offer for sale in the market at a given price at a given point of time.

- Relative concept :- Price , Time

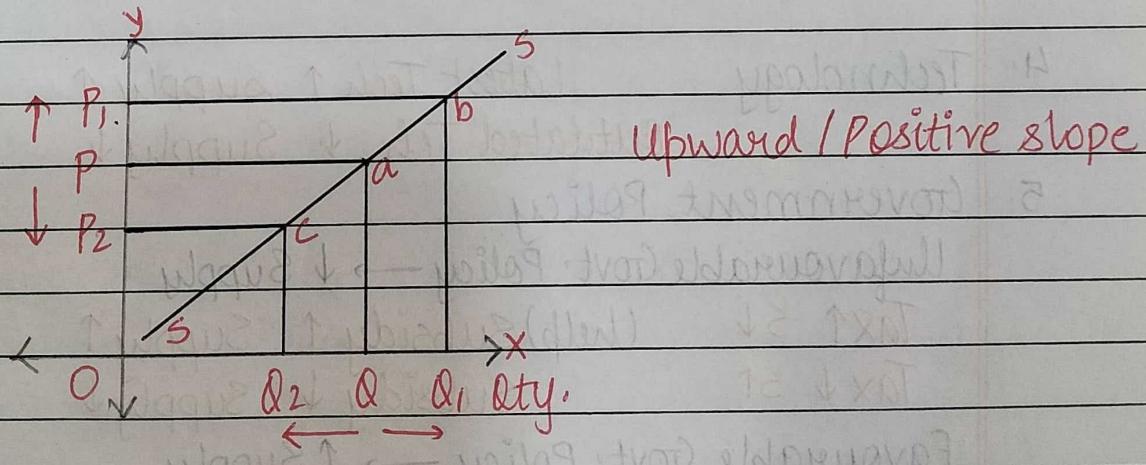
- Flow concept

- Production < output < stock < supply



- Direct Relationship between Price and Quantity Supply .

- Upward Slope



* DEFINITION

* Supply is defined as a Qty. of a commodity which is offered for sale in the market at a given price at a point of time.

* "Producer's plan to sell at a given price at a point of time."

* Producer is able and willing to offer.



* Factors / Determinants Affecting Supply

1. Price of a commodity $\uparrow P \uparrow Q.S$
 $\downarrow P \downarrow Q.S$

2. Price of Related goods

Shirt	T-shirt
500	400 ↑
550	600

complementary goods

when price of pen \uparrow
supply of ink \uparrow
(Direct relation)

substitute goods

when price of related
commodity \uparrow supply
of main commodity \downarrow
(Inverse relation)

3. Cost of Production

 $\uparrow COP \downarrow S$
 $\downarrow COP \uparrow S$

4. Technology

Latest Tech \uparrow Supply \uparrow
Outdated Tech \downarrow Supply \downarrow

5. Government Policy

Unfavourable Govt. Policy $\rightarrow \downarrow$ Supply

Tax \uparrow S \downarrow (help) Subsidy \uparrow Supply \uparrow

Tax \downarrow S \uparrow Subsidy \downarrow Supply \downarrow

Favourable Govt. Policy $\rightarrow \uparrow$ Supply

6. Time

Short Period \rightarrow Less supply

Long Period \rightarrow More supply

7. Number of firms

Monopoly \rightarrow Less supply

Competition \rightarrow High Supply



8. Natural Factors

Favourable N.F. → ↑ Supply
UnFavourable N.F. → ↓ Supply

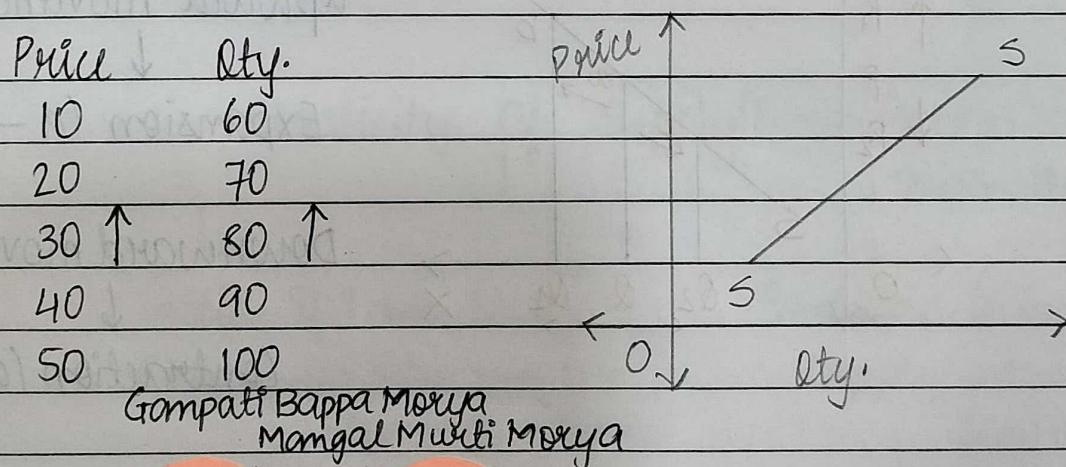
* LAW OF SUPPLY (Qualitative relation)

- o Alfred Marshall POE (1890)
- o Direct Relationship between Price and Qty. Supply

STATEMENT

Other things being constant

"More quantity will be supplied at higher price and less quantity will be supplied at lesser price."



Higher the price higher the supply, lower the price lower the supply. This is called as law of supply (2)

Ceterius Peribus

higher the supply,

Ceterius Peribus lower the supply. (2). This is called as law of supply (2). Direct relation upward slope, Direct relation positive slope (2). This is called as law of supply (2)

Alfred Baba ki Jai!!

VARIATION IN SUPPLY

Expansion
in supply

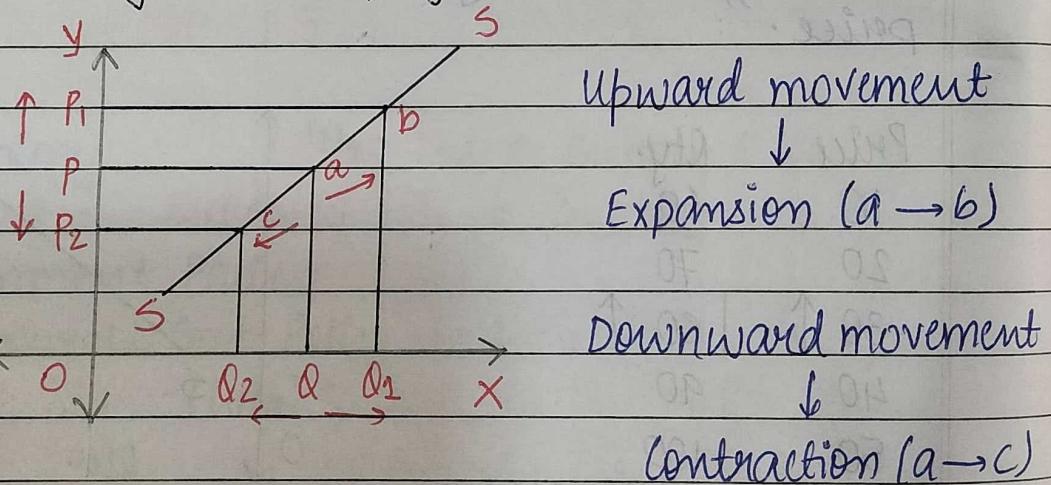
More qty. is supplied
at high price

Contraction in
Supply

Less qty. is supplied
at low price.

{ when supply changes due to Price only other factors
are kept constant. }

{ change in qty. supplied on movement
along same supply curve }





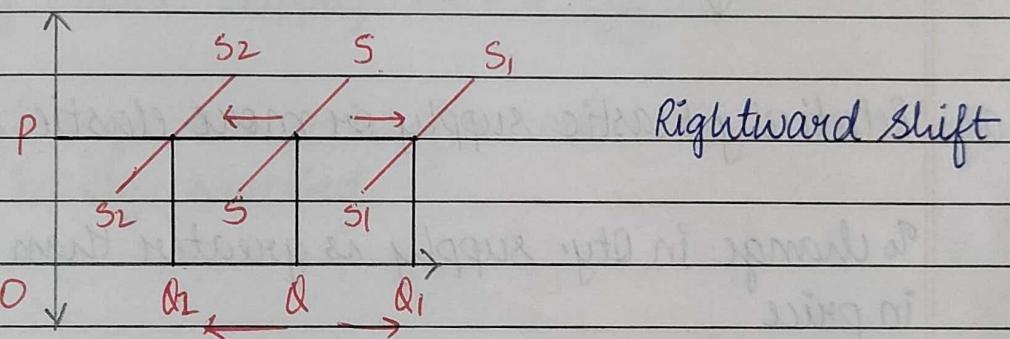
CHANGE IN SUPPLY

↓
Increase in supply

↓
Decrease in supply

When supply changes due to other factors, Price will be constant

Shift in Supply Curve



*

Elasticity of Supply / Responsiveness to change in supply due to price

↓
Elastic If I am able to supply produce more →
Elastic supply

↓
Inelastic If I am able to supply produce less →
Inelastic supply

Price elasticity of supply = $\frac{\% \text{ change in Qty. supply}}{\% \text{ change in Price}}$

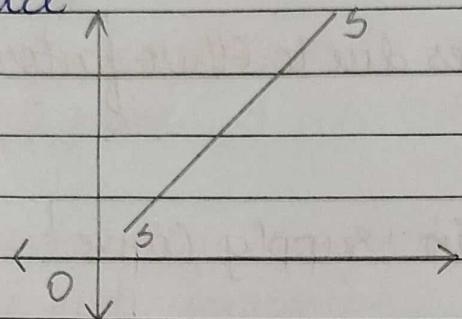
$$EC = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P}$$



* TYPES OF PRICE ELASTICITY OF SUPPLY

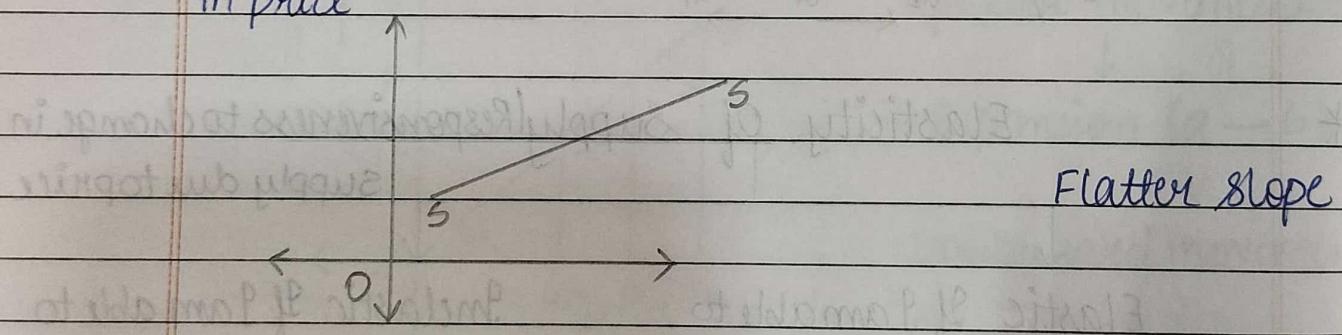
1. Unitary Elastic Supply $es = 1$

% change in Qty. supply is equal to % change in price



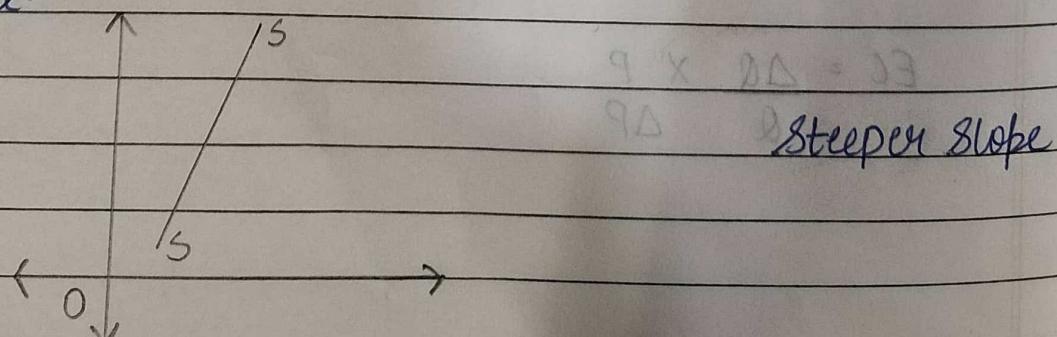
2. Relatively Elastic supply or more elastic supply

% change in Qty. supply is greater than % change in price



3. Relatively Inelastic supply / Less elastic supply $es > 1$

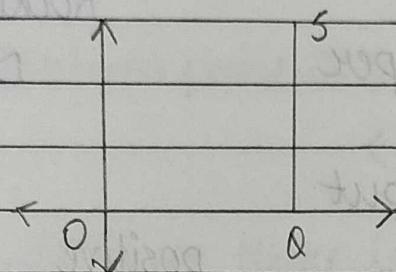
% change in Qty. supply is lesser than % change in price.





4. Perfectly Inelastic supply $Es=0$ (no change)

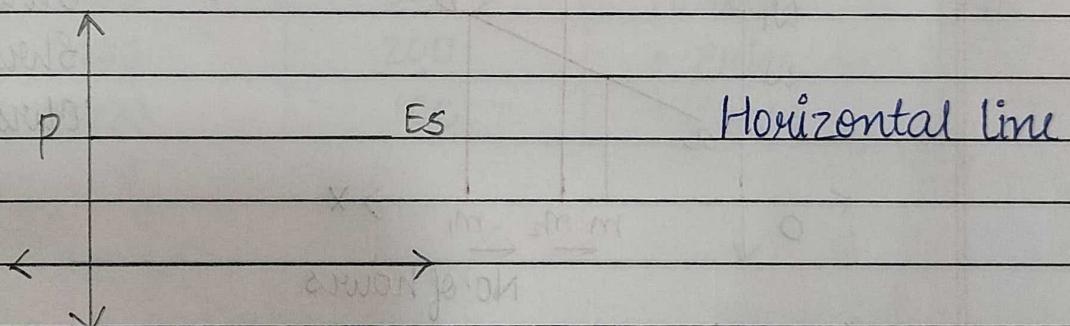
Slight change in price leads to no change in Qty. supplied.



Eg: Land,
Perishable goods,
Rare articles

5. Perfectly Elastic Supply $Es=\infty$

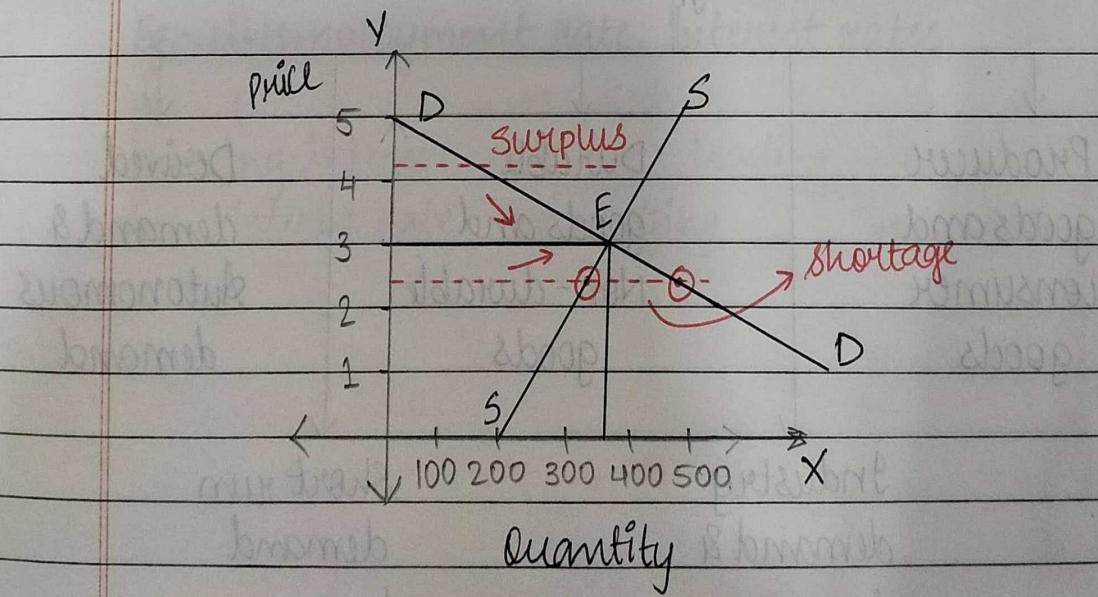
Slight change in a price of a commodity leads to infinite change in Qty. supplied



** (V.V.IMP) EQUILIBRIUM PRICE

- * It is that price where quantity demand = Quantity supply.
- * Equilibrium price is also known as Market clearing price.
- * In equilibrium there is neither shortage nor surplus.

Price	Qty. Demand	Qty. Supply	Effect on price
5	100	500	↓ Price (falls)
4	200	400	
3	300	300	Equal
2	400	200	↑ Price (rises)
1	500	100	





* DEMAND FORECASTING

TYPES OF FORECASTS

↓ ↓ ↓
Macro level Industry level Firm level

General economic environment Concerned with the demand of Industry's product Forecasting the demand for a particular firm's product

* DEMAND DISTINCTIONS

Types

↓
Producer goods and consumer goods

↓
Durable goods and Non-durable goods

↓
Derived demand & Autonomous demand

↓
Industry demand & Company demand

↓
Short run demand
long run demand



concurrent

* COINCIDENTAL INDICATOR

It has a direct relation. They will change along with the economic changes (simultaneously)

Eg:- GDP, Inflation, Retail sales, Personal Income, Industrial Production

* LEADING INDICATORS

All those indicators which will change before the economy changes.

Eg:- Stock Price, Profit margin, Residential investment.

* LAGGING INDICATOR

All those indicator which will change after the economy changes.

Eg:- Unemployment rate, Interest rates,

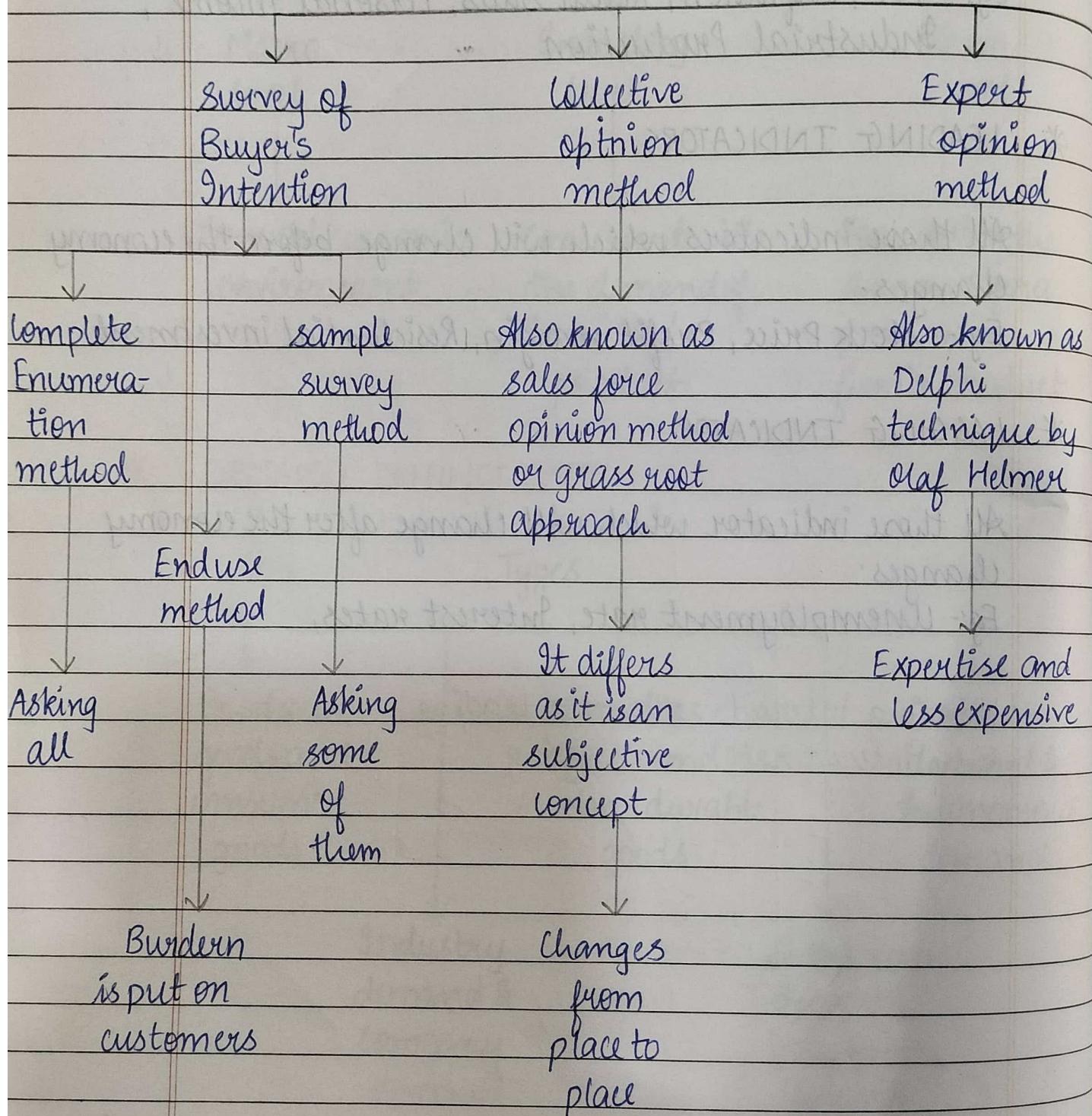
Housing interest rate → Leading

Only interest rate → Lagging



* DEMAND FORECASTING

METHODS OF





DEMAND FORECASTING

