SUPPLY

→ Supply is a flow concept, period of time.

Determinants of Supply

1) Price of Good :- $P \uparrow Q_s \uparrow$, $P \downarrow Q_s \downarrow$
2) Price of related goods :- $P_x \uparrow Q_y \downarrow$

3) Price of factors of production :- $\frac{1}{\alpha}$ to supply
4) Technology :- Improved tech. ⇒ Supply ↑

5) Policies of Govt. :- subsidies ⇒ supply ↑
govt. restrictions ⇒ supply ↓
6) expectations of future prices of goods : expected to ↑ then supply ↓
7) No. of sellers ↑ supply ↑

Law of supply

other things remaining constant, $P \uparrow Q_s \uparrow$ and $P \downarrow Q_s \downarrow$

Supply schedule

Tabular presentation of the Law of supply.

Supply curve

Graphical presentation of supply schedule.
Slopes upward towards right (Positive slope) (direct relationship)

Due to change in price

→ **Expansion of supply** :- P↑ Quantity supplied ↑
Upward movement.

→ **Contraction of supply** :- P↓ Quantity supplied ↓
Downward movement

Due to change in other factors other than price

→ **Rightward shift** :- Increase in supply
→ **Leftward shift** :- Decrease in supply

Elasticity of supply

→ responsiveness of the Qty. supplied due to change in its price

$$\Rightarrow \frac{\%\text{ change in Qty supplied}}{\%\text{ change in Price}} \Rightarrow \frac{\Delta Q_s}{\Delta P} \times \frac{P}{Q_s}$$

- **Point elasticity of supply** $\Rightarrow \frac{dq}{dp} \times \frac{P}{q}$
- **Arc elasticity of supply** $\Rightarrow \frac{\Delta Q_s}{\Delta P} \times \frac{P+P_1}{Q_s+Q_{s_1}}$

$E_s = 0$ Vertical SC, Perfectly Inelastic, ‖ to y-axis
$0 < E_s < 1$ less-elastic, SC shoots from x-axis [Qty axis)
$E_s = 1$ Unit Elastic, Shoots from origin
$1 < E_s < \infty$ Greater-elastic, SC shoots from Y-axis [price axis]
$E_s = \infty$ Horizontal SC, Perfectly elastic, ‖ to x-axis

Determinants of Elasticity of Supply

1) Long & Complex production process : $E_s \downarrow$
2) Long Time period : $E_s \uparrow$ Short time period : $E_s \downarrow$
3) Large no. of producers, fewer barriers of entry
Greater the spare capacity, inputs easily & cheaply available
Easily & inexpensively stored : Elastic supply, $E_s \uparrow$

4) Raw material short in supply, longer delivery period,
Scarce labour, longer training period : Low elastic, $E_s \downarrow$

5) Products continuously produced : $E_s \uparrow$
Infrequently produced : $E_s \downarrow$
6) Expectation of rise in price in future : $E_s \downarrow$ to current price rise.

→ Market clearing price
Equilibrium price ⇒ Qty demanded = Qty supplied
Micro economic theory also called Price Theory.

Consumer surplus : area below demand curve & above price line.
Producer surplus : area above supply curve & below price line.