

SUPPLY

Supply of a commodity refers to the various quantities of the commodity which a seller is willing and able to sell at different prices in a given market at a point of time, other things remaining the same.

Two points are applicable to supply-

1. Supply refers to what firm offer for sale not necessarily to what they succeed in selling.
2. Supply is a flow process.

Determinants of Supply:

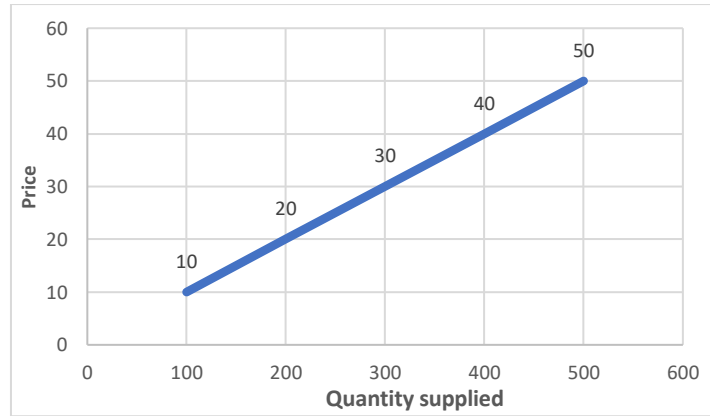
1. **The cost of factors of production:** Cost depends on the price of factors. Increase in factor cost increases the cost of production, and reduces supply.
2. **Transport:** Better transport facilities will increase the supply.
3. **Price:** If the prices are high, the sellers are willing to supply more goods to increase their profit.
4. **Price of other goods:** The price of other goods is more than 'X' then the supply of 'X' will be increased.
5. **The state of technology:** Use of advanced technology increases productivity of the organization and increases its supply.
6. **External factors:** External factors like weather influence the supply. If there is a flood, this reduces supply of various agricultural products.
7. **Tax and subsidy:** Increase in government subsidies results in more production and higher supply

Law of Supply

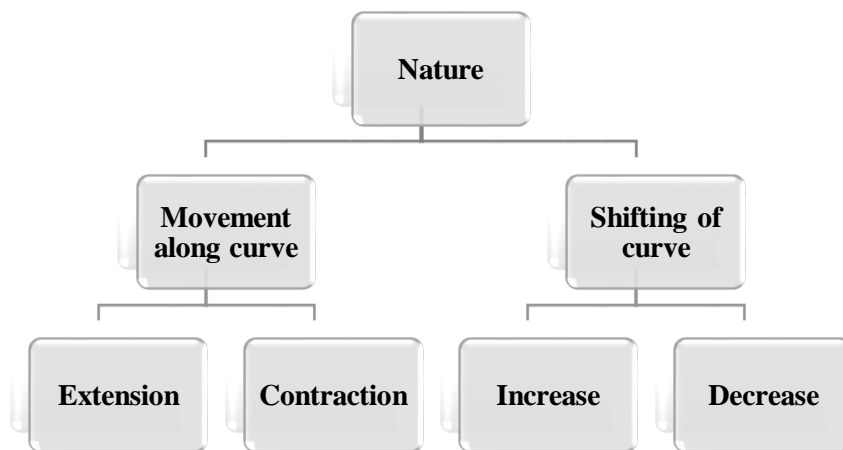
The law of supply states the direct relationship between price and quantity supplied. The law of supply can be defined as other things being remaining constant, the quantity of the goods produces and offered for sale will increase as the price of goods rises and decrease as the price fall. The law is based upon the economic sense that at higher the price the greater amount of profit can be earned and thus the greater the incentives to produce the goods and offer it for sale.

It implies that the supply of a commodity and its price are positively related. This relationship holds under the assumption that "other things remaining the same". "Other things" include cost of production, change in technology, price of related goods (substitutes and complements), and weather and climate in case of agricultural products.

Price	Goods Supplied
10	100
20	200
30	300
40	400
50	500



Nature of supply curve-

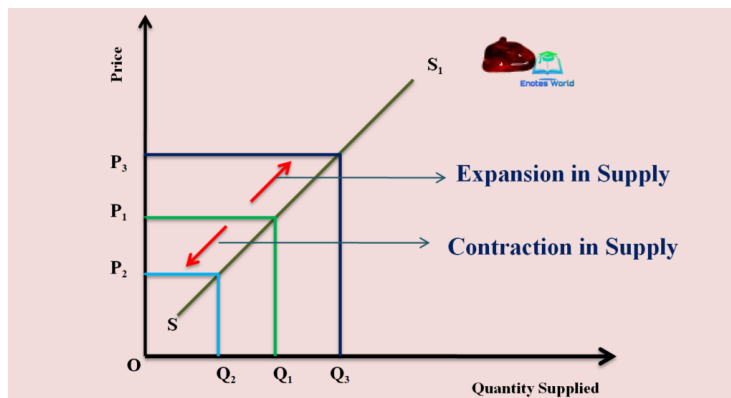


► **Extension in supply curve**

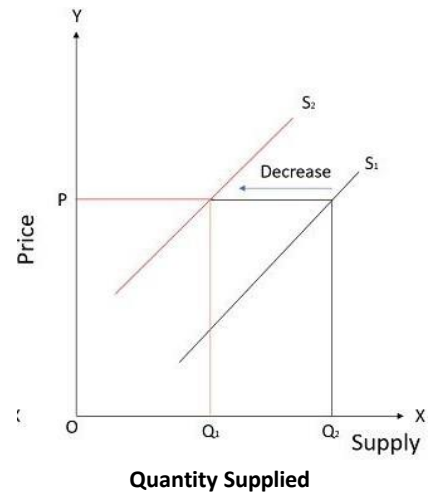
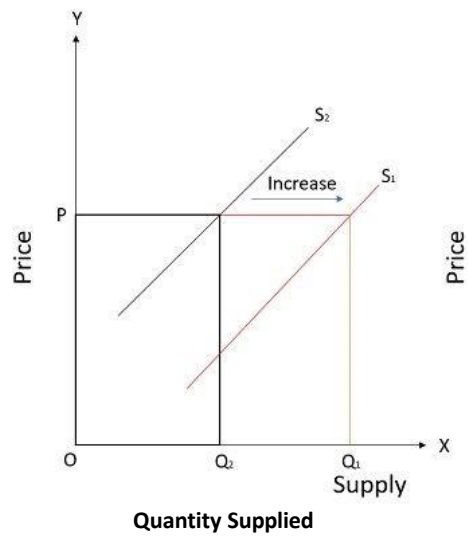
When the supply of goods increases as a result of an increase in its price and no change in determinants.

► **Contraction in supply curve**

When supply of goods decreases as a result of decrease in its price and no change in determinants



Shifting of curve



References:

Dwivedi D N, Managerial Economics, Vikas Publishing House Pvt. Ltd, 2006

Samuelson, Paul A; Nordhaus, William D. (2014). Economics. Boston, Mass: Irwin McGraw-Hill.

