

THE LAW OF SUPPLY

- ‘Law of supply states that other things remaining the same, the quantity of any commodity that firms will produce and offer for sale rises with rise in price and falls with fall in price.’
- i.e. Higher the price, higher will be quantity supplied and lower the price smaller will be quantity supplied.
- ‘Other things remaining the same’ means determinants other than own price such as technology, goals of the firm, government policy, price of related goods etc. should not change.

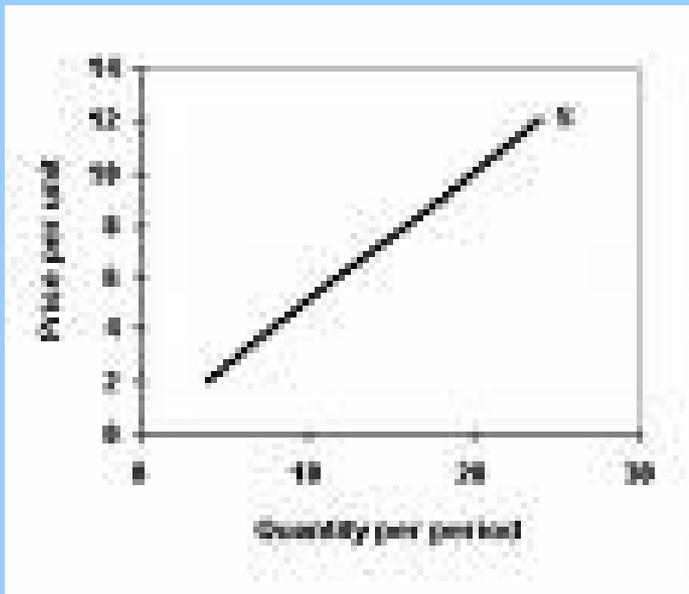


Supply schedule

- A supply schedule is a **tabular statement** showing various quantities which producers are willing to produce and sell at various alternative prices during a given period of time.
- A supply schedule may be **individual supply schedule** or **market supply schedule**.

Individual supply schedule

- It is the **table** which shows various quantities of a commodity that an individual producer or a firm would offer for sale at different prices during a given period.



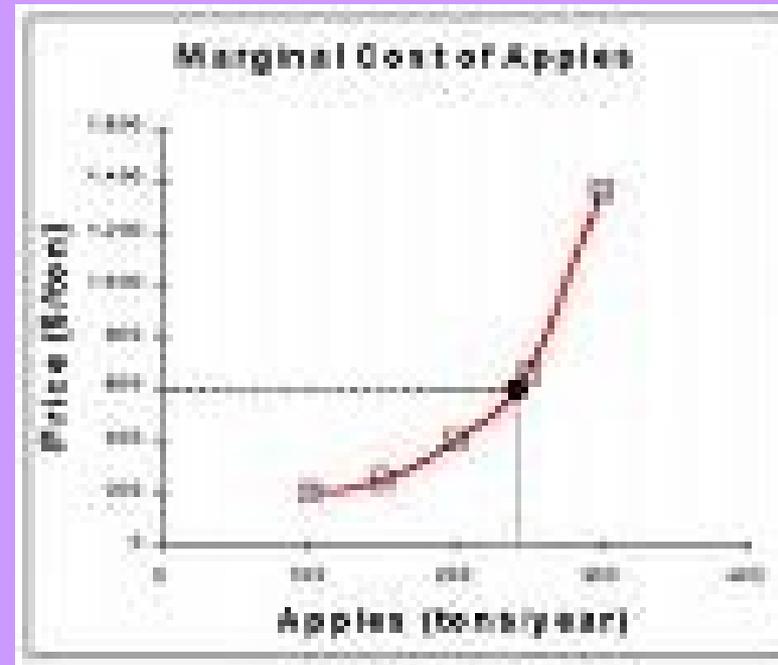
Price/unit	Qty. supplied
10	25
15	35
20	45
25	55

Market supply schedule

- It is the **table** which shows various quantities of the goods that all the firms are willing to supply at each market price during a specified time period, assuming that factors other than the price of the goods are given.
- It is the summation of individual supply schedule.

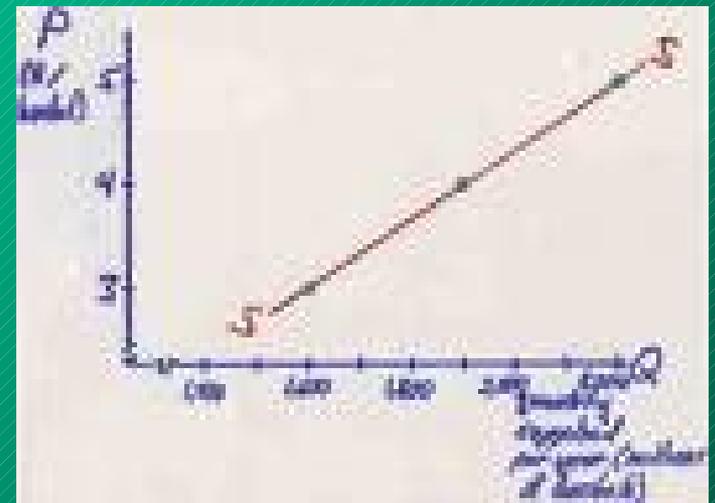
Individual supply curve

- It is defined as the curve which shows various quantities of a given commodity which an individual producer is willing to supply at different prices during a given period of time, assuming no change in all other factors affecting supply.
- It is usually **positively sloping** from left to right.



Market supply curve

- It is the curve which shows various quantities of a commodity which all the producers are willing to produce and sell at different prices during a given period of time, assuming that other factors remain same.
- It is the horizontal summation of individual supply curves.
- It is also called **Industrial supply curve**.
- It is usually **positively sloping** from left to right.



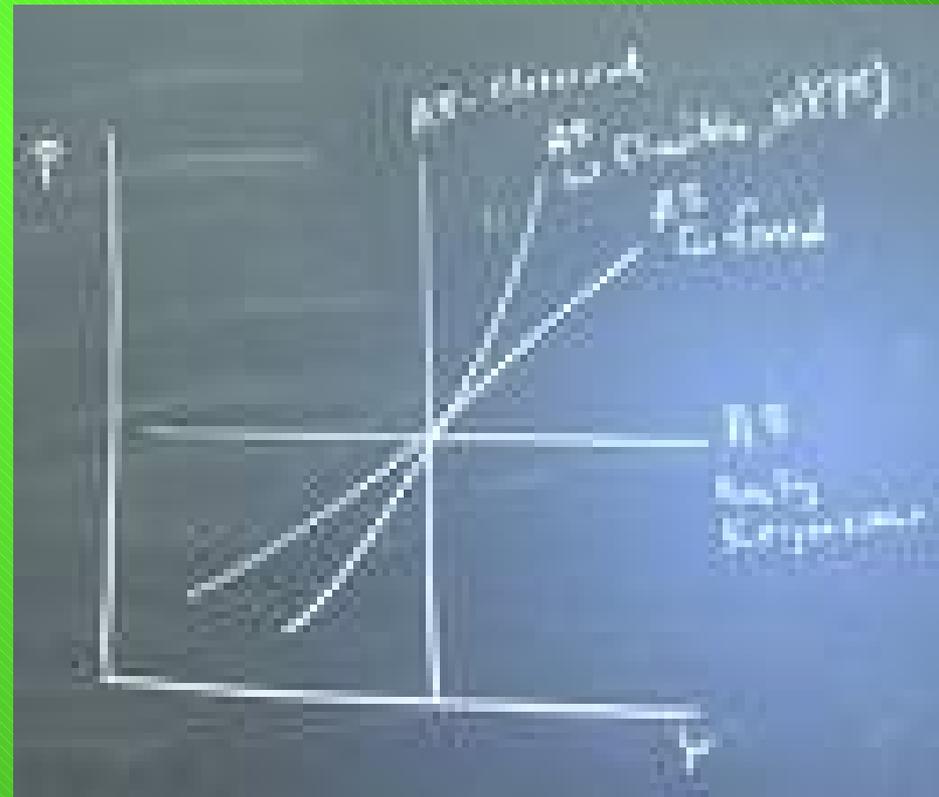
Why supply curve slopes upward from left to right positively?

The reasons are....

- The level of price determines profit. i.e. higher the price, higher the profit and vice versa. So higher the price, the greater is the incentive for the producer to produce and supply more in the market, other things remain the same.
- Positive slope of supply curve is also caused by the rise in the cost of production. Usually cost of production increases with increase in production. In this situation a producer will produce and sell more units only at a higher price.
- The rise in price also motivates other producers to produce this commodity so as to earn higher profit.

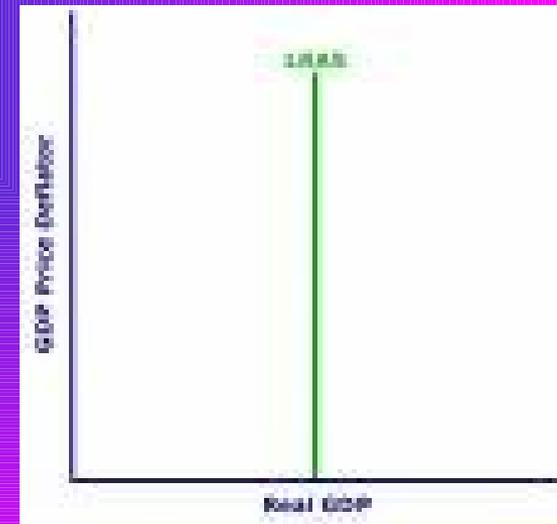
Time period and supply

- Supply depends on time period.
- Time periods are market period, short period and long period.
- Market period is a very short period in which the supply cannot be changed. In this period supply curve will be vertical and parallel to Y axis.
- Short run is the period in which supply **can be adjusted** to some extent. So supply curve in this period is upward sloping.
- Long run is the period when the firms can build new plants and produce and supply large quantities. So the supply curve will be upward sloping flatter supply curve.



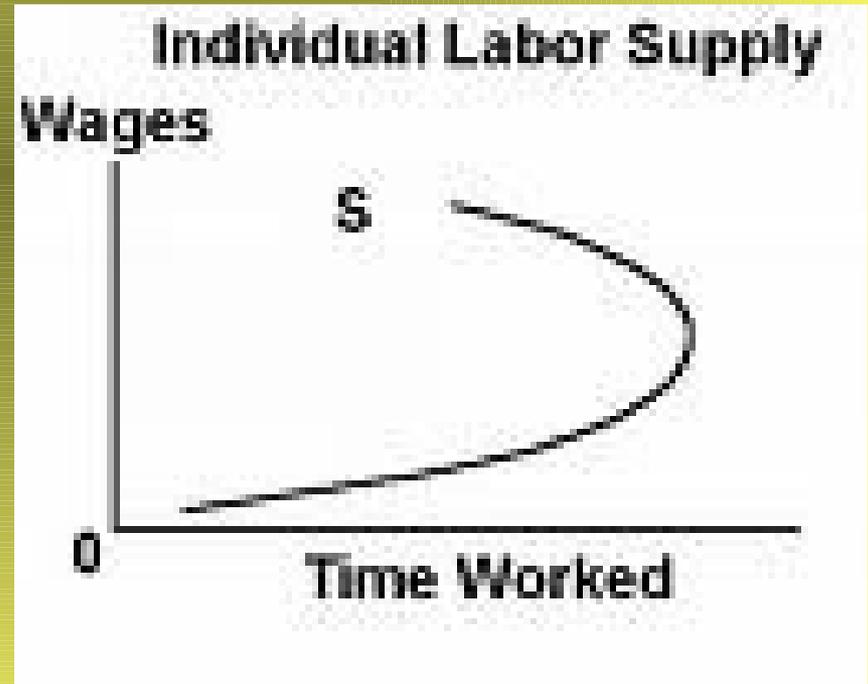
Exceptions to law of supply

- There are certain commodities the supply of which cannot be increased at all. eg. Rare goods such as classical paintings, old manuscripts, old coins etc. In some cases the supply cannot be increased in short run like agricultural products. Here the supply curve will be vertical straight line parallel to Y axis.



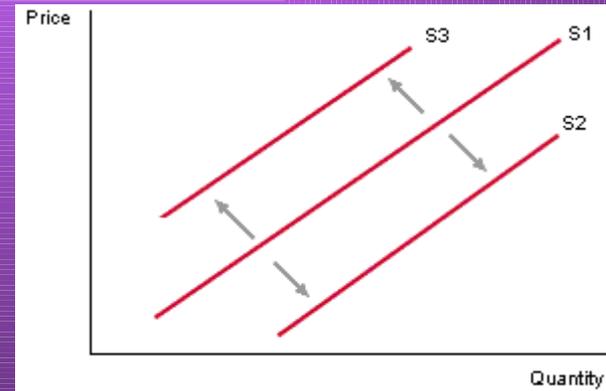
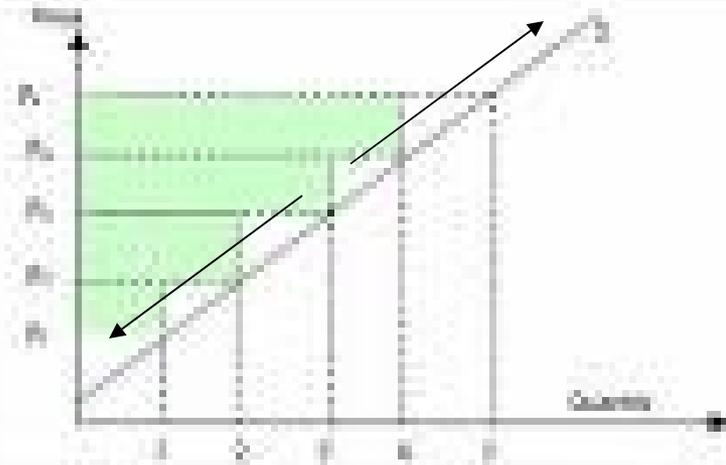
Exceptions to law of supply

- In case of certain commodities smaller quantity would be offered at a higher price than at a lower price. Here the supply curve will be backward sloping.eg. In case of labour supply when the price is high they offer only less labour hours so as to enjoy more leisure.



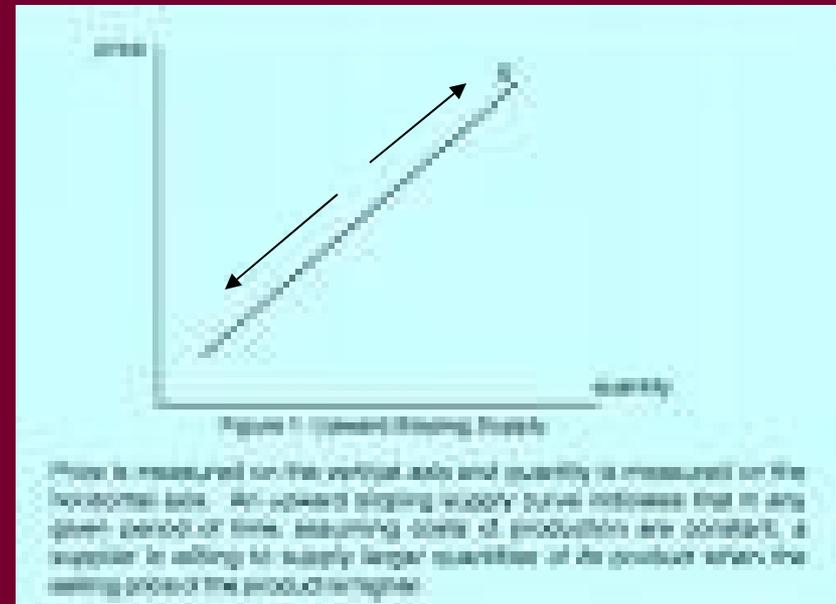
Change in supply?

- Change in supply may be
- movement along supply curve or
- shift in supply curve



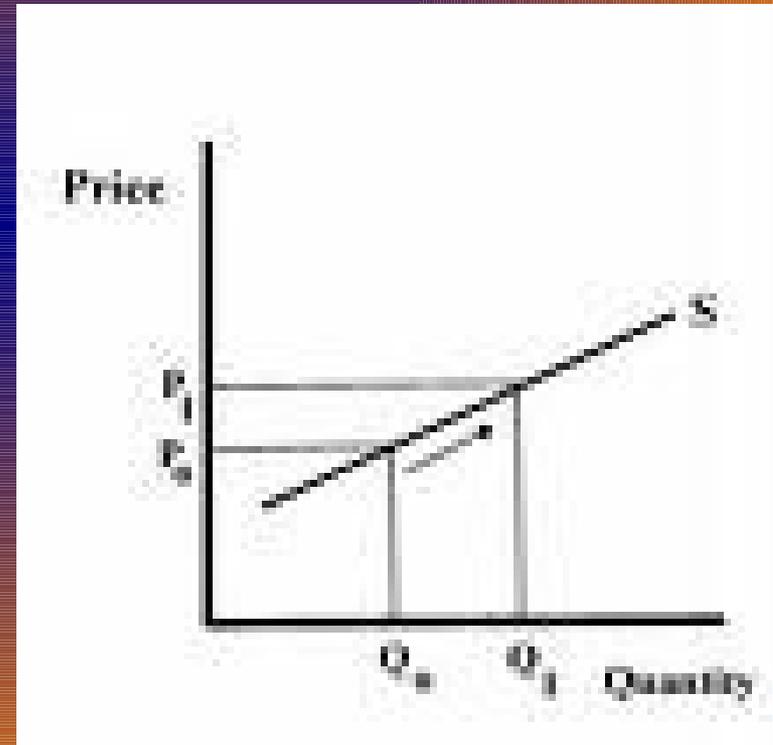
What is movement along supply curve Or Change in quantity supplied?

- When quantity supplied changes due to change in price, it is change in quantity supplied.
- Here supply curve moves upward or downwards.
- It may be extension of supply or contraction of supply.



What is extension of supply?

- When the quantity supplied rise due to rise in the price, it is extension of supply or increase in quantity supplied.
- Here the supply curve moves upward.
- It is due to increase in price.



What is contraction of supply?

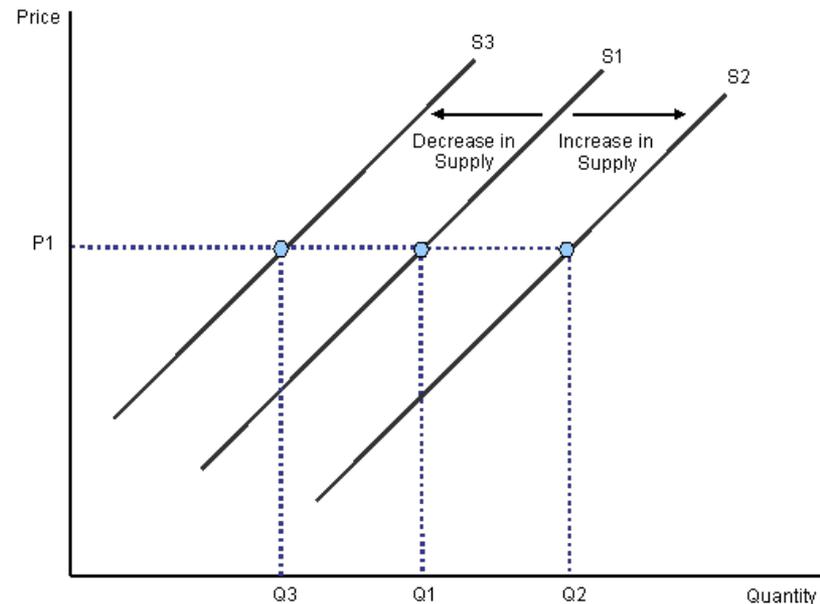
- When the quantity supplied falls due to a fall in its price, it is called contraction of supply or decrease in quantity supplied.
- In this case supply curve moves downwards.
- It is due to decrease in price.



What is change in supply? or shift in supply curve?

- When the amount of supply changes due to factors other than price of the commodity, it is called change in supply.
- In this case supply curve shifts either rightwards or leftwards.

Changes in any of the factors other than price cause a shift in the supply curve
A shift in supply to the left – the amount that producers offer for sale at every price will be less



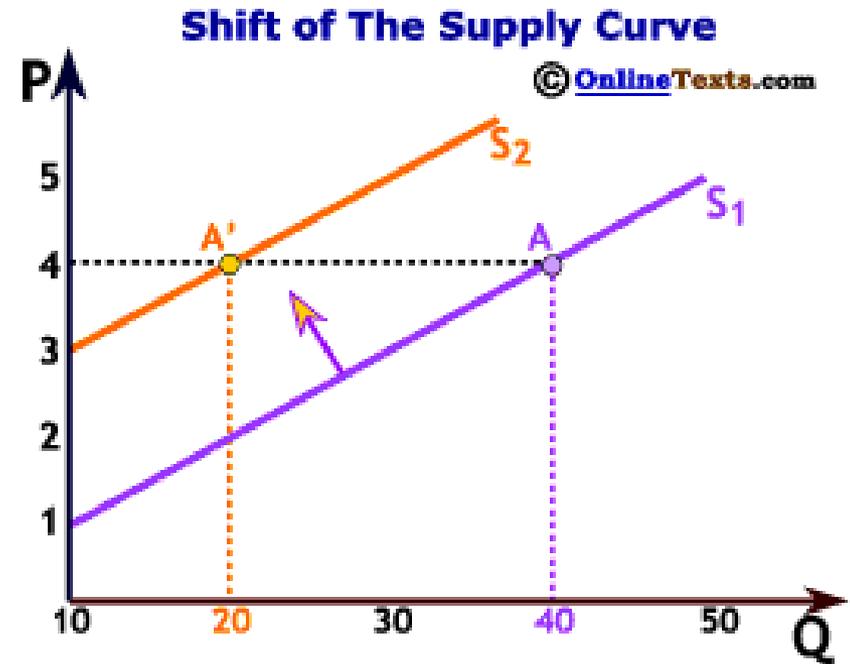
Shift in the Supply Curve

What is decrease in supply?

Or leftward shift in supply curve?

TABLE 5
Change in Supply due to an Increase in Video Costs

Price	Quantity Demanded	Initial Quantity Supplied	New Quantity Supplied
\$5	10	50	30
\$4	20	40	20
\$3	30	30	10
\$2	40	20	0
\$1	50	10	0



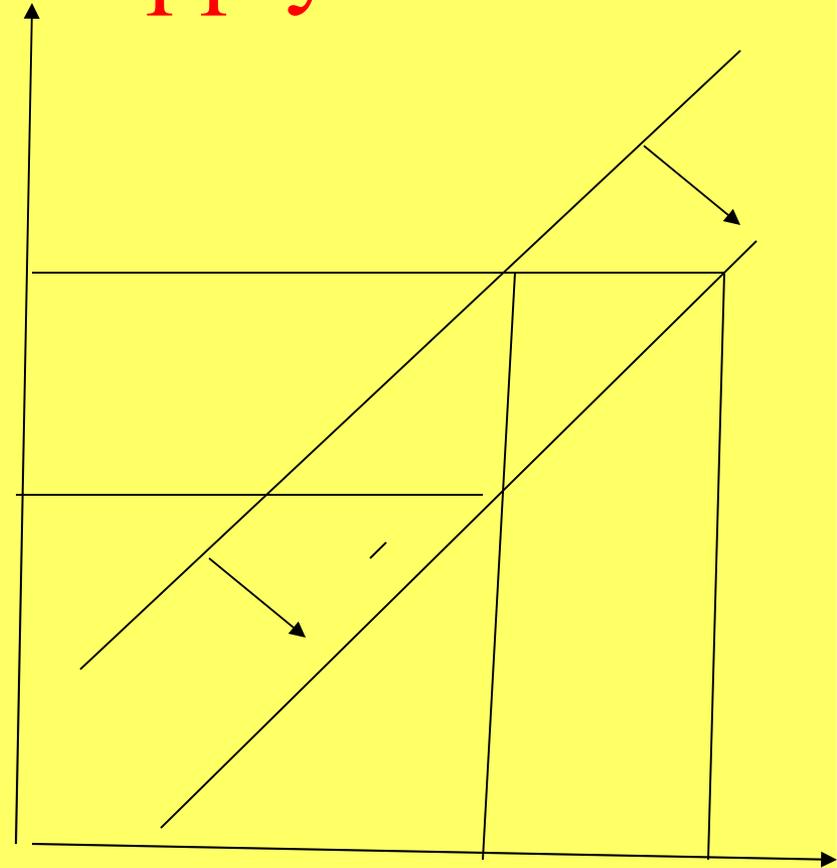
For an given rental price, quantity supplied is now lower than before.

SHIFT IN SUPPLY CURVE

What is an increase in supply?

Or rightward shift in supply curve?

- It refers to a situation when the producers are willing to supply a larger quantity of the commodity at the same price or same quantity at lower price.
- The reasons may be...
improvement in technology,
decrease in input prices, fall in
the prices of related goods.



What is decrease in supply? Or left ward shift in supply curve?

- It is a situation when the producers are willing to supply a **lesser** quantity at same price or **same** quantity at a higher price
- The reasons may be outdated technology, rise in price of substitute goods, increase in input price etc.

