Supply Analysis

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Supply

• **Supply**: is the amount of goods that sellers offer to sell at various prices.

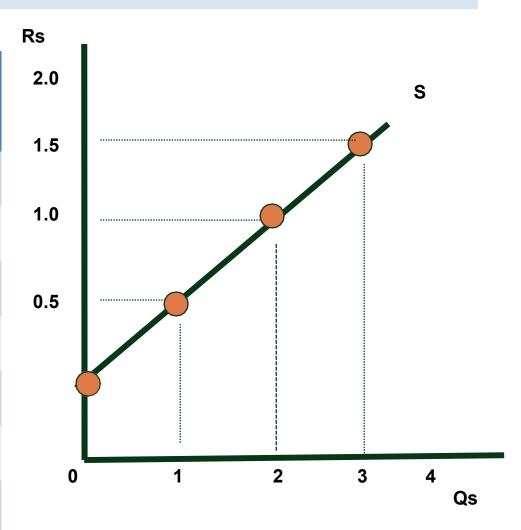


The Supply Curve

- The Law of Supply: Other things remaining constant, quantity supplied of a commodity is positively related to its price.
 - Sq = f(P)
- Higher the price, higher the quantity supplied.
- The Supply curve slopes upwards to the right.
- Higher price means higher profit margin, given costs.
- Sosellers increase their supply, when price is higher.

Supply Curve

Price (Rs)	Q supplied (kgs)
0.5	1
1.0	2
1.5	3
2.0	4
2.5	5
3.0	6
3.5	7



Factors affecting Supply

Price of the given Commodity

► The most important factor determining the supply of a commodity is its price. As a general rule, price of a commodity and its supply are directly related. It means, as price increases, the quantity supplied of the given commodity also rises and vice-versa.

Prices of Factors of Production (inputs)

- ► This means business can supply more at each price. Lower costs could be due to lower wages, lower raw material costs.
- ▶ To make ice-cream, firms need various inputs like cream, sugar, machine, labour, etc. When price of one or more of these inputs rises, producing ice-creams will become less profitable and firms supply fewer ice-creams.

Related supply

- If there is an increase in the supply of Car then there will also be an increase in the supply of petrol/diesel.
- (car/mobile accessories)

Weather

Climatic conditions are very important for agricultural products

Productivity of workers

▶ If workers become more motivated and work hard, then there will be significant increase in output and supply.

Technological improvements

Improvements in technology, e.g. computers or automation, reducing firms costs.

Exceptions to the Law of Supply

Change in business

It may happen that the seller may plan to enter into an entirely new business by exiting the current one. So when the present business is on the verge of closure then the seller may sell his goods at lower prices to clear them off. So here too the law of supply is not being followed.

Competition

Offering to sell more quantities at lower prices and negating the law of supply.

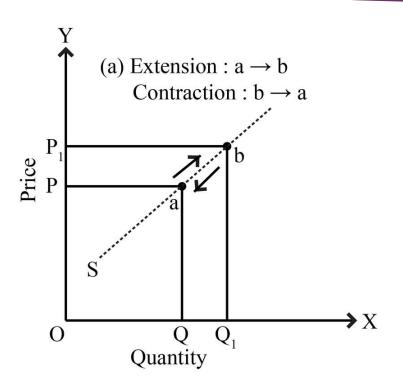
Perishable Goods

In cases of perishable goods, the supplier would offer to sell more quantities at lower prices to avoid losses due to damage to the product.

Rare Articles



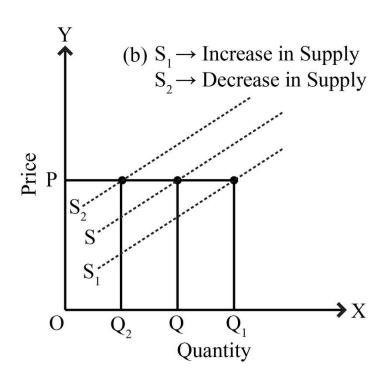
Movement along the supply curve



Movement along the supply curve or change in quantity supplied refers to extension and contraction of supply of a commodity caused by change in own price of the commodity.

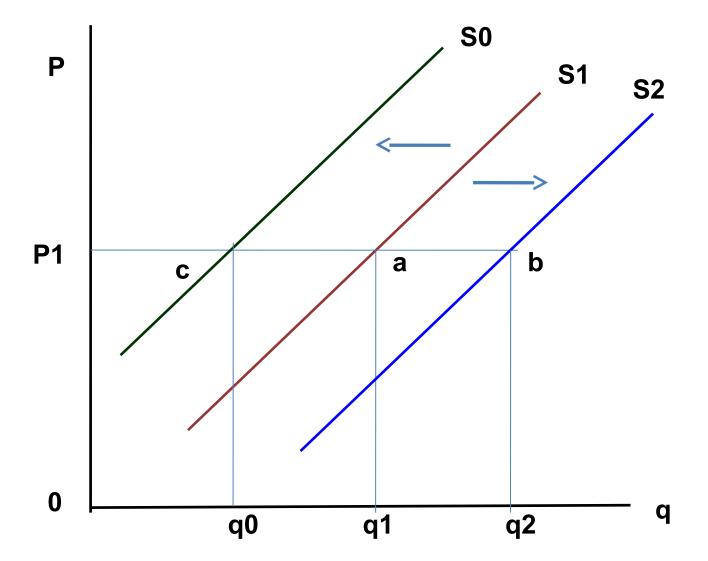
When price increases, there is an upward movement $(a\rightarrow b)$ along the supply curve, called extension of supply; and when price decreases, there is a downward movement $(b\rightarrow a)$ along the supply curve, called contraction of supply.

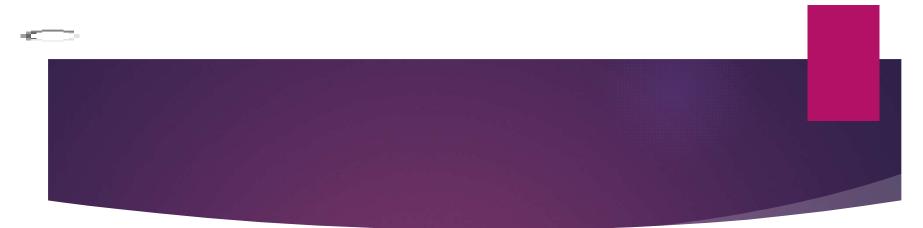
Shifts in Supply curve – Increase and Decrease in Supply



Shift of supply curve or change in supply refers to increase or decrease in supply of a commodity caused by change in factors other than own price of the commodity.

When other factors change in the favourable direction, the supply curve shifts to the right showing increase in supply; and when other factors change in an unfavourable manner, the supply curve shifts to the left showing a decrease in supply.





Say we have an initial supply curve for a certain kind of car.

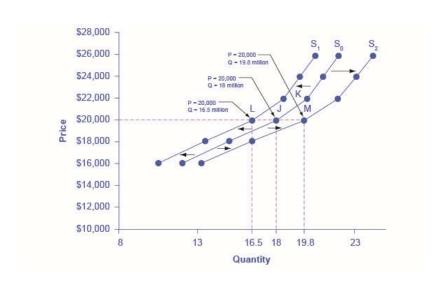
Now imagine that the price of steel—an important ingredient in manufacturing cars—rises so that producing a car becomes more expensive.

Which direction would this rise in cost cause the supply curve to shift?

- •(Choice A) Left
- •(Choice B) Right







- As a result of the higher manufacturing costs, the supply curve shifts to the left, toward \$1
 - Firms will profit less per car, so they are motivated to make fewer cars at a given price, decreasing the quantity supplied.
- A decrease in costs would have the opposite effect, causing the supply curve to shift to the right, toward S2
 - Firms would profit more per car, so they would be motivated to make more cars at a given price, increasing the quantity supplied.