Supply

Supply Function

Law of supply states that when the price of a commodity increases its supply also increases. Similarly, when the price of a commodity decreases its supply also decreases. Hence, there is a direct relationship between price and supply of a commodity. However, here we shall study the Supply Function in detail.

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Supply Function

It explains the relationship between the supply of a commodity and the factors determining its supply. We can better represent the supply function in the form of the following equation:

Sx = f (Px, PI, T, W, GP)

Where,

Sx = supply of commodity x

Px = Price of commodity x

PI = Price of inputs

T = Technology

W = Weather conditions

GP = Government Policy

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- Movement and Shift of Supply Curve
- Exceptions of Law of supply
- Elasticity of Supply

Read more about Supply Curve here in detail

Determinants of supply

The factors on which the supply of a commodity depends are known as the determinants of demand. These are:

- Price of the Commodity
- Firm Goals
- Price of Inputs or Factors
- Technology
- Government Policy
- Expectations
- Prices of other Commodities
- Number of Firms
- Natural Factors

1. Price of the Commodity

It is the main and the most important determinant of demand. When the price of the commodity is high, the producers or suppliers are willing to sell more commodities.

Thus, the supply of the commodity increases. Similarly, when the price is low the supply of the commodity decreases owing to the direct relationship between the price of a commodity and its supply.

2. Firm Goals

The supply of goods also depends on the goals of an organization. An organization may have various goals such as profit maximization, sales maximization, employment maximization, etc.

Where the firm's objective is the maximization of profit, it will sell more goods when profits are high and less quantity of goods when the profits are low.

3. Price of Inputs or Factors

The price of inputs or the factors of production such as land, labor, capital, and entrepreneurship also determine the supply of the goods. When the price of inputs is low the cost of production is also low.

Thus, at this point, the firms tend to supply more goods in the market and vice-versa.

Source: freepik.com

4. Technology

When a firm uses new technology it saves the inputs and also reduces the cost of production. Thus, firms produce more and supply more goods.

5. Government Policy

The taxation policies and the subsidies given by the government also impact the supply of goods.

When the taxes are high the producers are unwilling to produce more goods and thus, the supply will decrease.

On the other hand, when the government grants various subsidies and gives financial aids to the producers, they increase the production of goods. Thus, the supply also increases.

6. Expectations

When the producers or suppliers expect that the price shall increase in future they hoard the goods so that they can sell them at higher prices later. This will result in a decrease in the supply of goods.

Similarly, in case they expect a fall in price, they will increase the supply of goods.

7. Prices of other Commodities

When the price of complementary goods increases their supply also increases. Thus, this results in the increase in the supply of commodity also and vice-versa.

Also, when the price of the substitutes increases their supply also increases. This results in a decrease in the supply of goods.

8. Number of Firms

When the number of firms in the market increase the supply of goods also increases and vice-versa.

9. Natural Factors

The factors like weather conditions, flood, drought, pests, etc. also affect the supply of goods. When these factors are favorable the supply will increase.

Questions on Determinant of Supply

Q.What are complementary and substitute goods?

Ans. Complementary goods are those goods which are used together to satisfy a single want. For example, sugar and tea, cement and bricks, etc.

Substitute goods are those goods which can replace other goods. For example, tea and coffee, pen and pencil, juice and cold drinks, etc.

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