

Chapter 4 – Supply Functions

Prof. Siddhesh Soman

Law of Supply

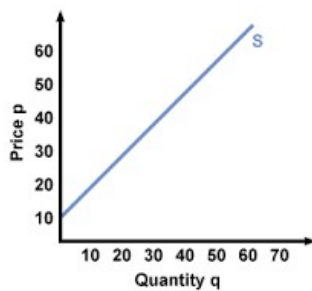
Other things remaining same:

Price ↑ Supply ↑

Price ↓ Supply ↓

Price and Supply hence have a direct relationship represented by upward sloping curve.

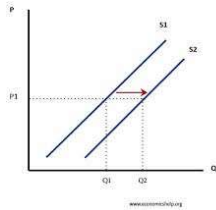
Supply Curve



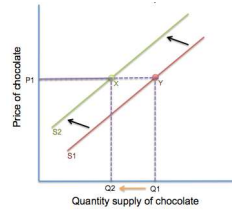
Shift in Supply Curve

- Shifts in the supply curve occur **only due to** changes in the Quantity Supplied for **changes in factors other than price**
- If the Quantity Supplied changes due to price, it is called as 'Movement along the supply curve'.
- If the Quantity Supplied changes due to other factors, it is called as 'Shift in the supply Curve'

Shift in Supply Curve



Supply Curve Shifting to Right



Supply Curve Shifting to Left

Factors affecting Supply

- Price
- Price of Inputs
- Price of substitutes
- No. of suppliers in the market
- Technology
- Expected Future Price
- Govt. Policies
- Natural Calamities

Price Elasticity of Supply

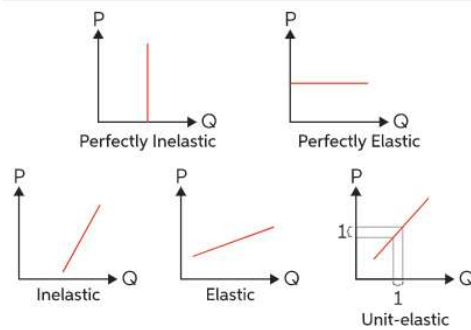
$$\text{Price Elasticity} = \frac{\% \text{ Change in QS}}{\% \text{ Change in Price}}$$

Measures % Change in QS for a given % change in the price of good/service

Values of Price Elasticity

Value Ep	Name	Interpretation
∞	Perfectly Elastic Supply	Even a small changes in price causes the supply to change significantly
Greater than 1	Relatively Elastic Supply	% Change in QS > % Change in P
1	Unit Elastic Supply	% Change in QS = % Change in P
Less than 1	Relatively Inelastic Supply	% Change in QS < % Change in P
0	Perfectly Inelastic Supply	Even a large change in price has no effect on quantity supplied

Supply Curves for different types



Determinants of Elasticity of Supply

- Timeframe
 - Longer Timeframe: High Elasticity
- Availability of the resources
 - High Availability: High Elasticity
- Storage facility
 - Better Storage Facilities: Higher Elasticity
- Factor mobility
 - Higher factor Mobility: Higher Elasticity

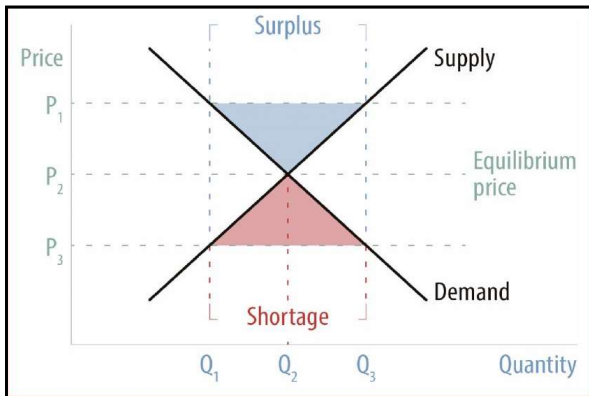
Chapter 5 – Market Equilibrium and Economic Surplus

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Market Equilibrium

- A market occurs where buyers and sellers meet to exchange money for goods
- Market Equilibrium is a situation or a price at which $Q_D = Q_S$
- In other words a scenario where Demand Curve and Supply Curve intersect at a particular price

Price Discovery Mechanism



Price Discovery Mechanism – E.g.

Price	QD	QS
200	20	200
150	50	180
100	90	120
50	150	50

What is the approximate Equilibrium Price & Equilibrium Quantity of this market ?

Price Discovery Mechanism

Demand	Supply	Impact on Price
Increases	Remains same	Goes Up
Remains same	Increases	Goes Down
Decreases	Remains same	Goes Down
Remains same	Decreases	Goes Up

Price Discovery Mechanism

Demand	Supply	Impact on Price
Increases	Increases	Nullifying Impact
Decreases	Decreases	Nullifying Impact
Increases	Decreases	Substantial Goes Up
Decreases	Increases	Substantially Goes Down