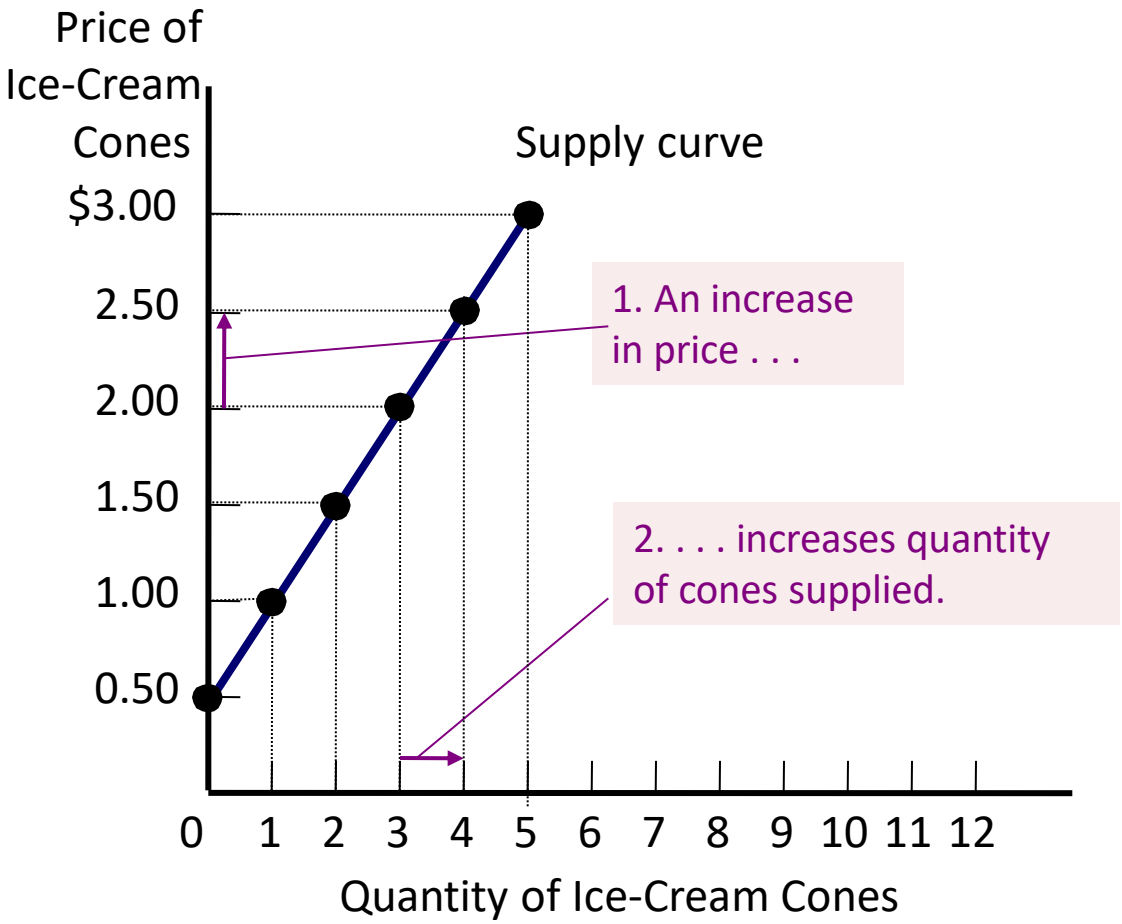
SUPPLY

- *Supply* is the number of units of a commodity provided by the manufacturer or supplier.
- *Quantity supplied* is the amount of a good that sellers are willing and able to sell in the market.

Supply schedule and Supply curve

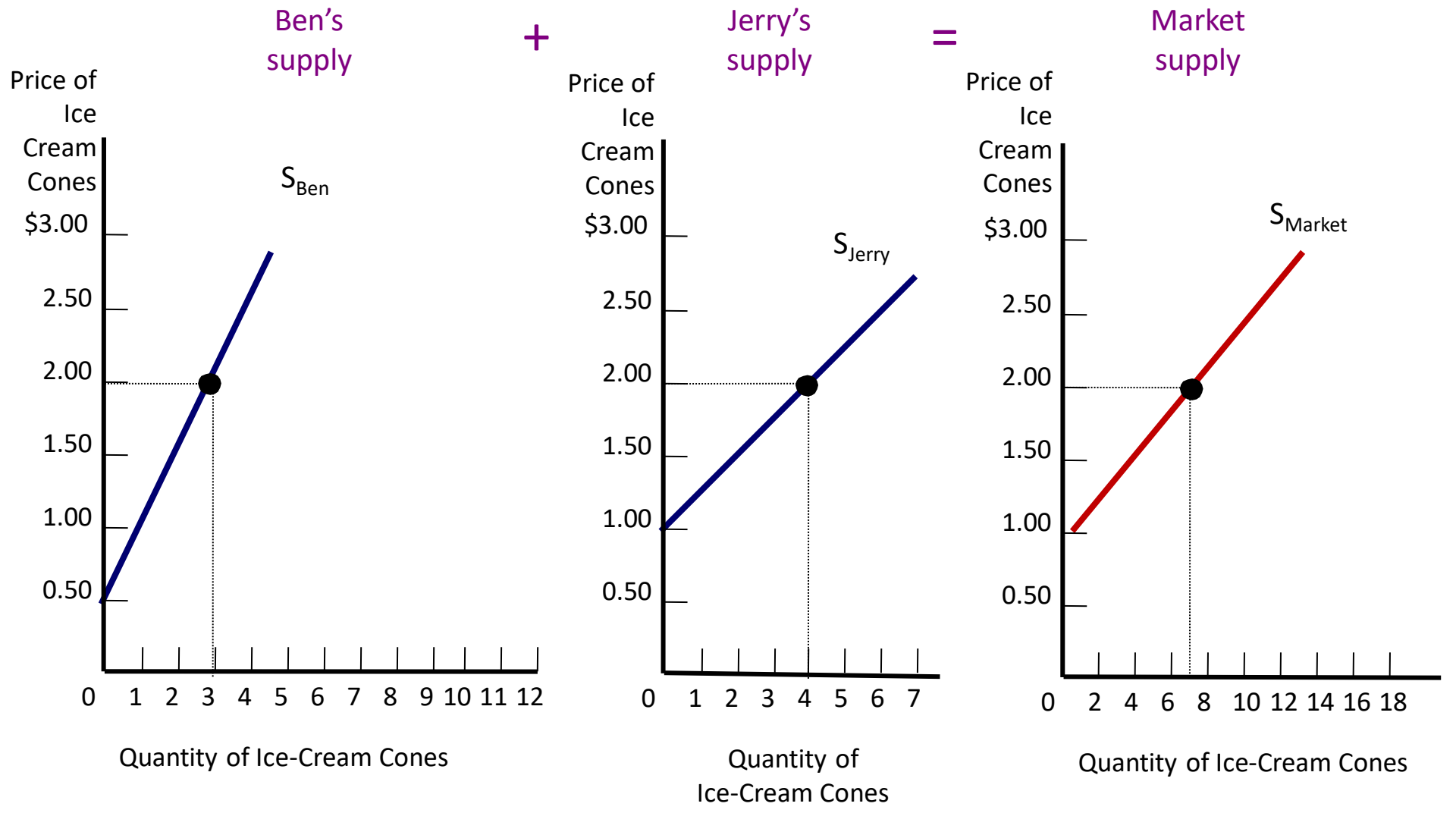
Price of Ice-cream cone	Quantity of Cones supplied
$0.00	0 cones
0.50	0
1.00	1
1.50	2
2.00	3
2.50	4
3.00	5



Market supply and individual supplies

Price of ice-cream cone	Ben		Jerry		Market
$0.00	0	+	0	=	0
0.50	0		0		0
1.00	1		0		1
1.50	2		2		4
2.00	3		4		7
2.50	4		6		10
3.00	5		8		13

Market supply and individual supplies



Law of Supply

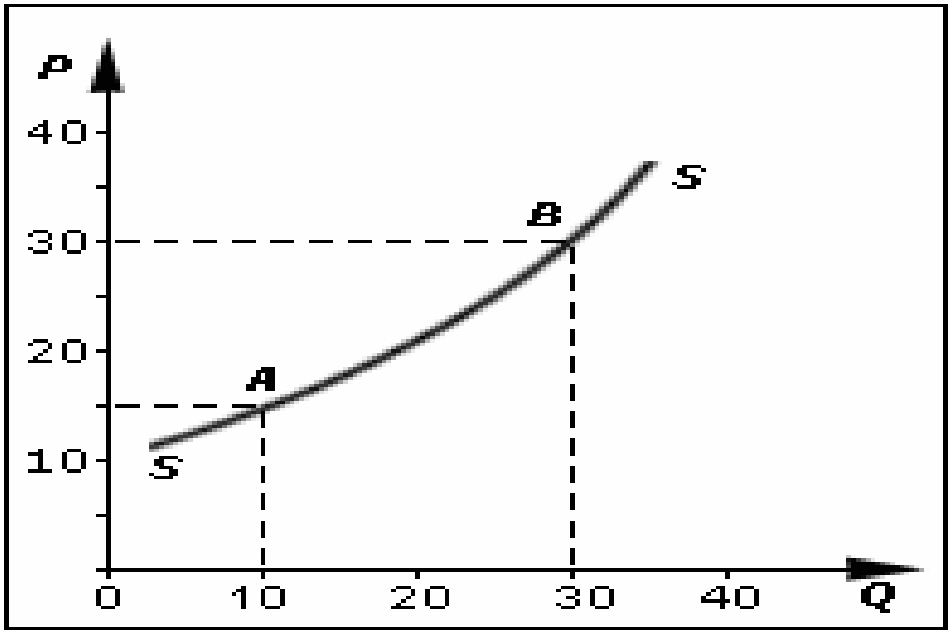
- The *law of supply* states that, **the quantity supplied of a good rises when the price of the good rises**, as long as all other factors that affect suppliers' decisions are unchanged or considering other factors to be constant.

Determinants of Supply

- Price of the Commodity
- Cost of Production
- Profitability in alternative good
- Profitability in Joint good
- Future expected Price
- Natural Calamities
- Man made Calamities
- Number of Suppliers

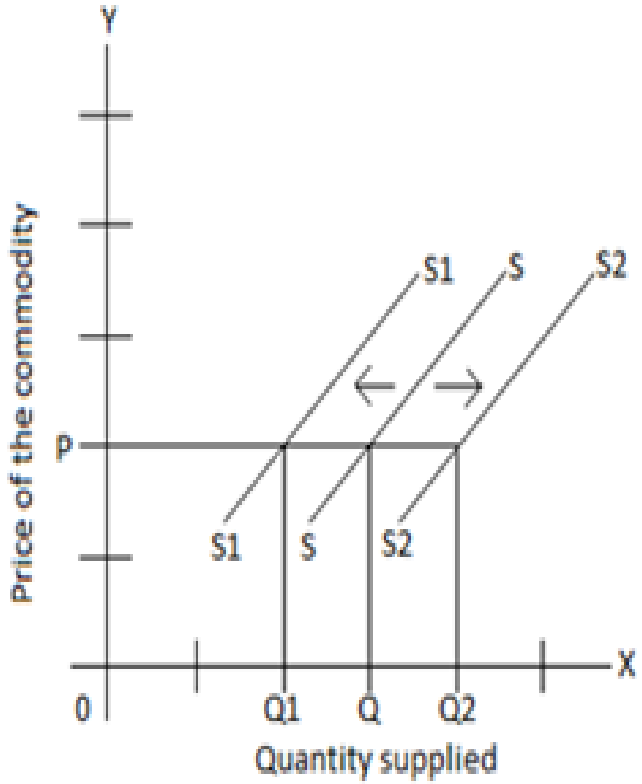
Movement in Supply curve

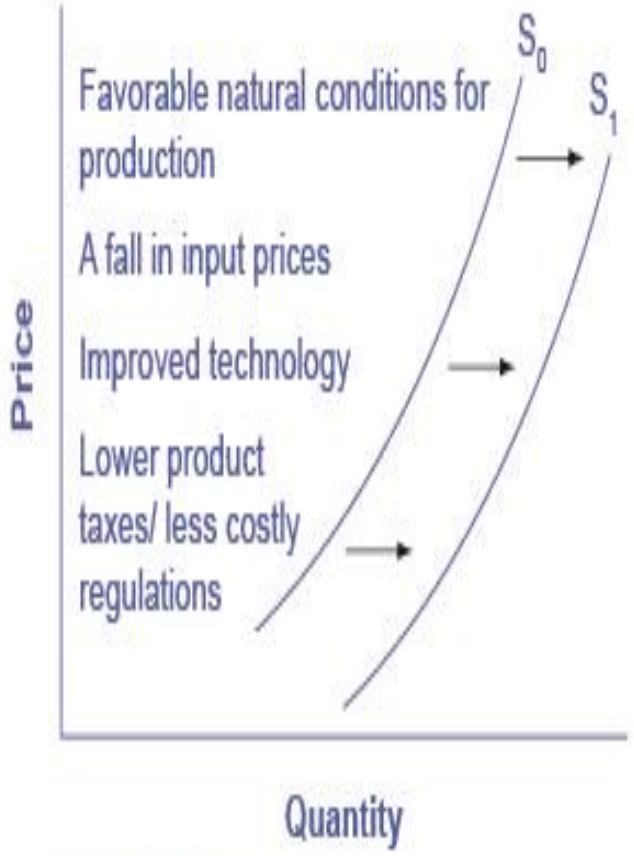
- Due to change in Price



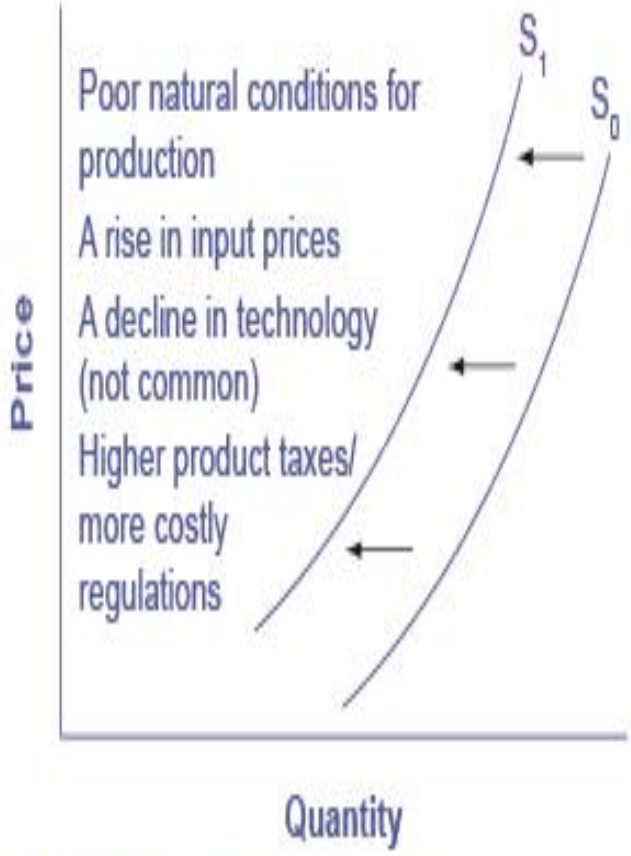
Shifts in the Supply Curve

- Due to changes in
  - Input prices
  - Technology
  - Number of sellers (short run)





(a) Factors that increase supply



(b) Factors that decrease supply

SUPPLY AND DEMAND TOGETHER

Demand Schedule

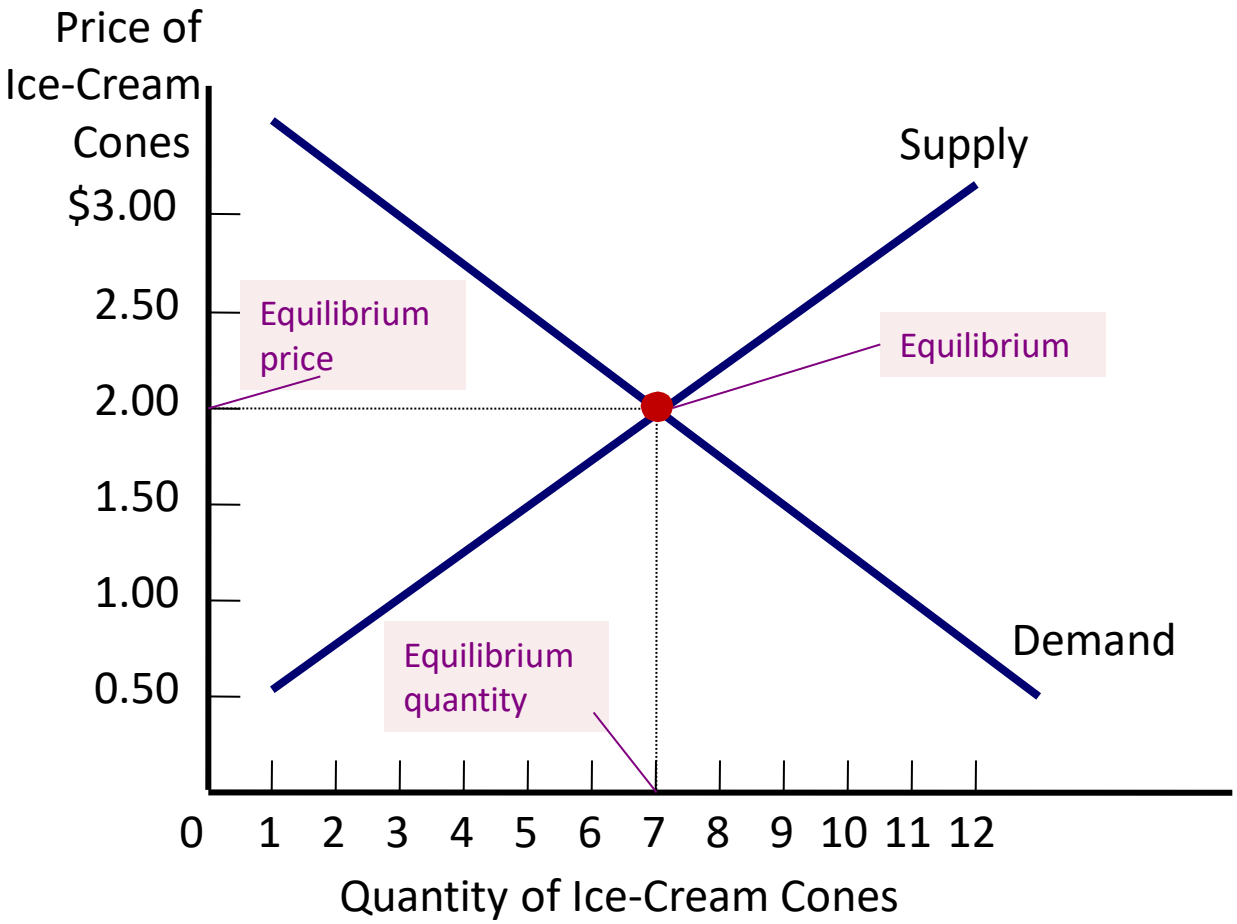
Price of Ice-Cream Cone	Market
$0.00	19
0.50	16
1.00	13
1.50	10
2.00	7
2.50	4
3.00	1

Supply Schedule

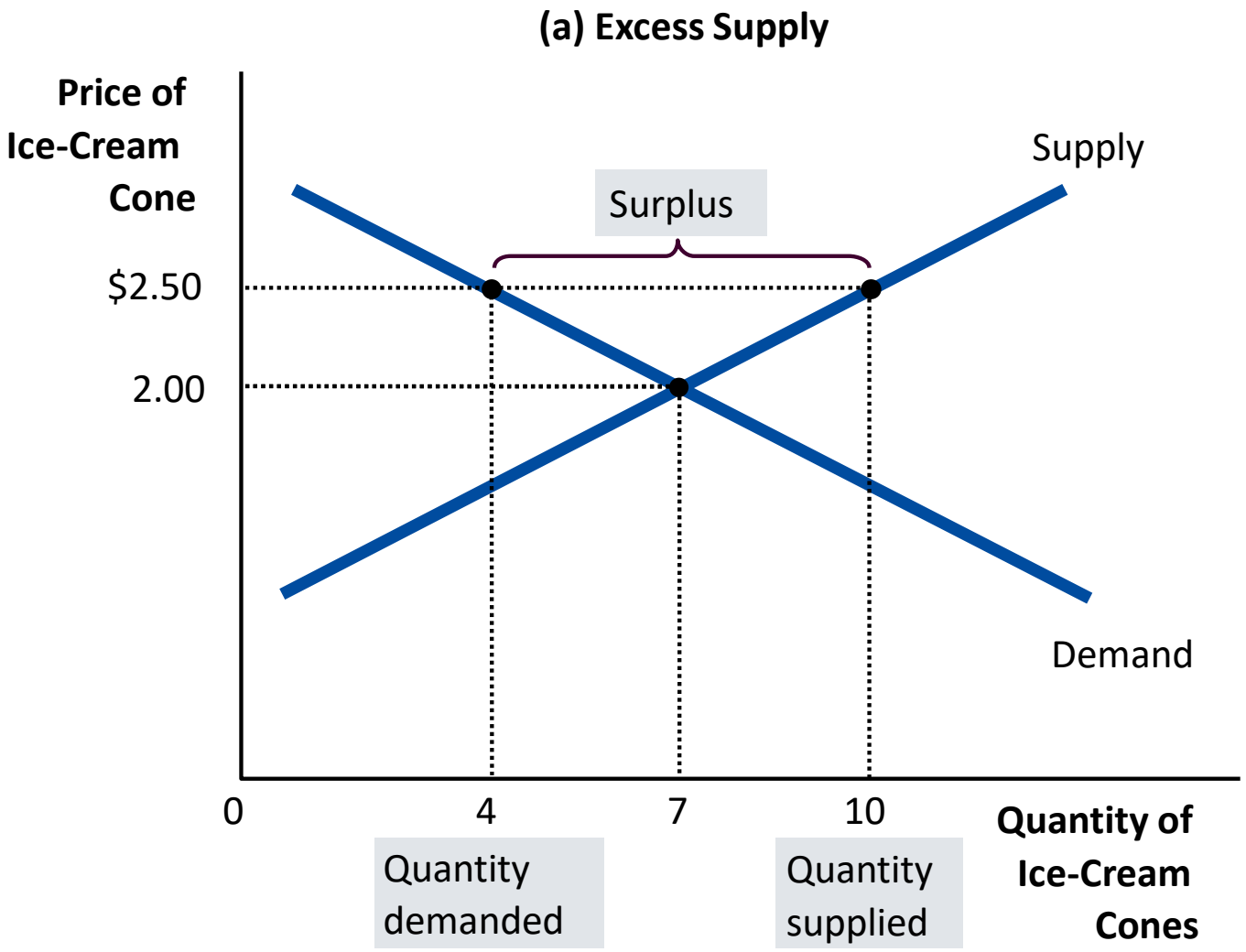
Price of Ice-Cream Cone	Market
$0.00	0
0.50	0
1.00	1
1.50	4
2.00	7
2.50	10
3.00	13

At $2.00, the quantity demanded is equal to the quantity supplied!

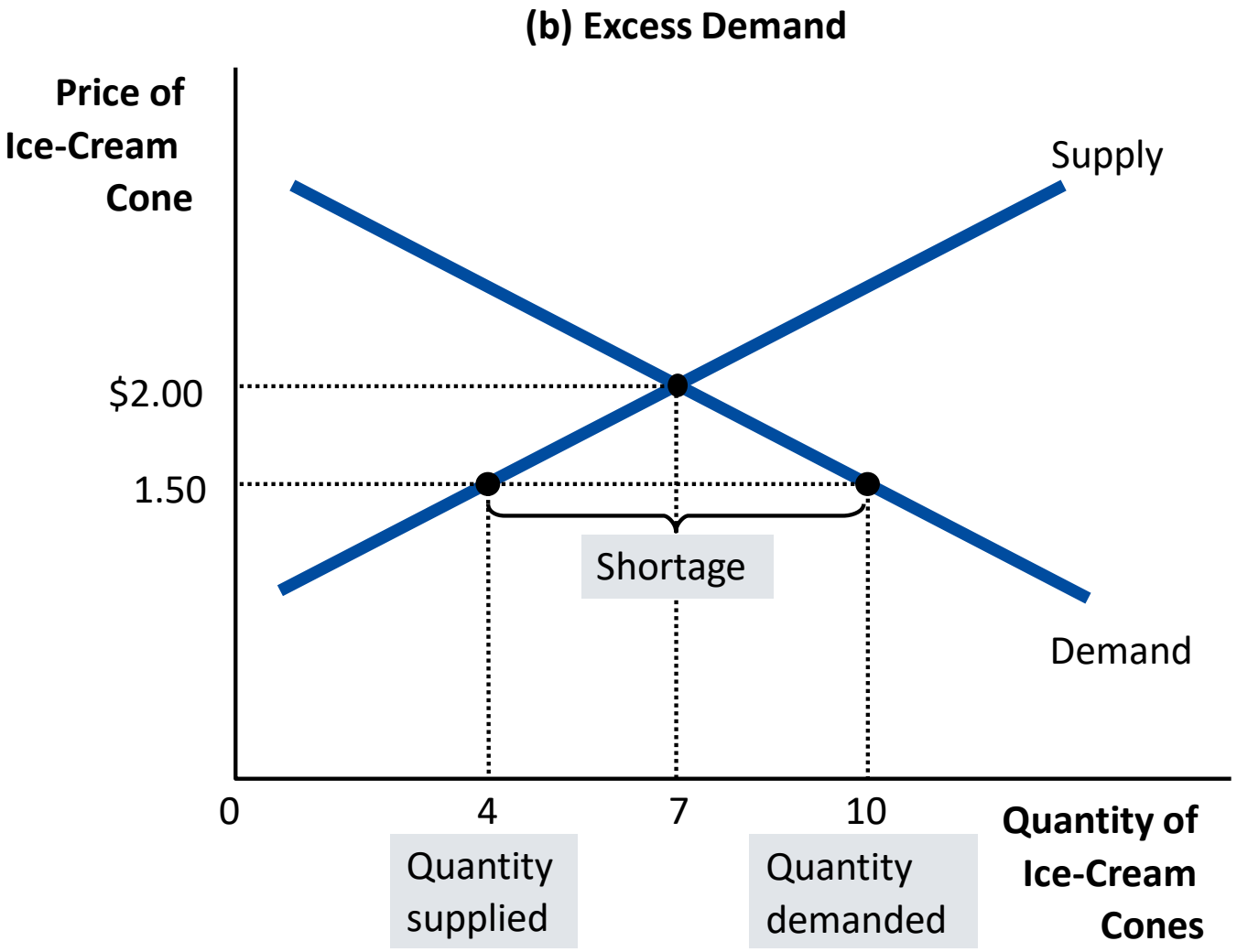
Equilibrium of supply and demand



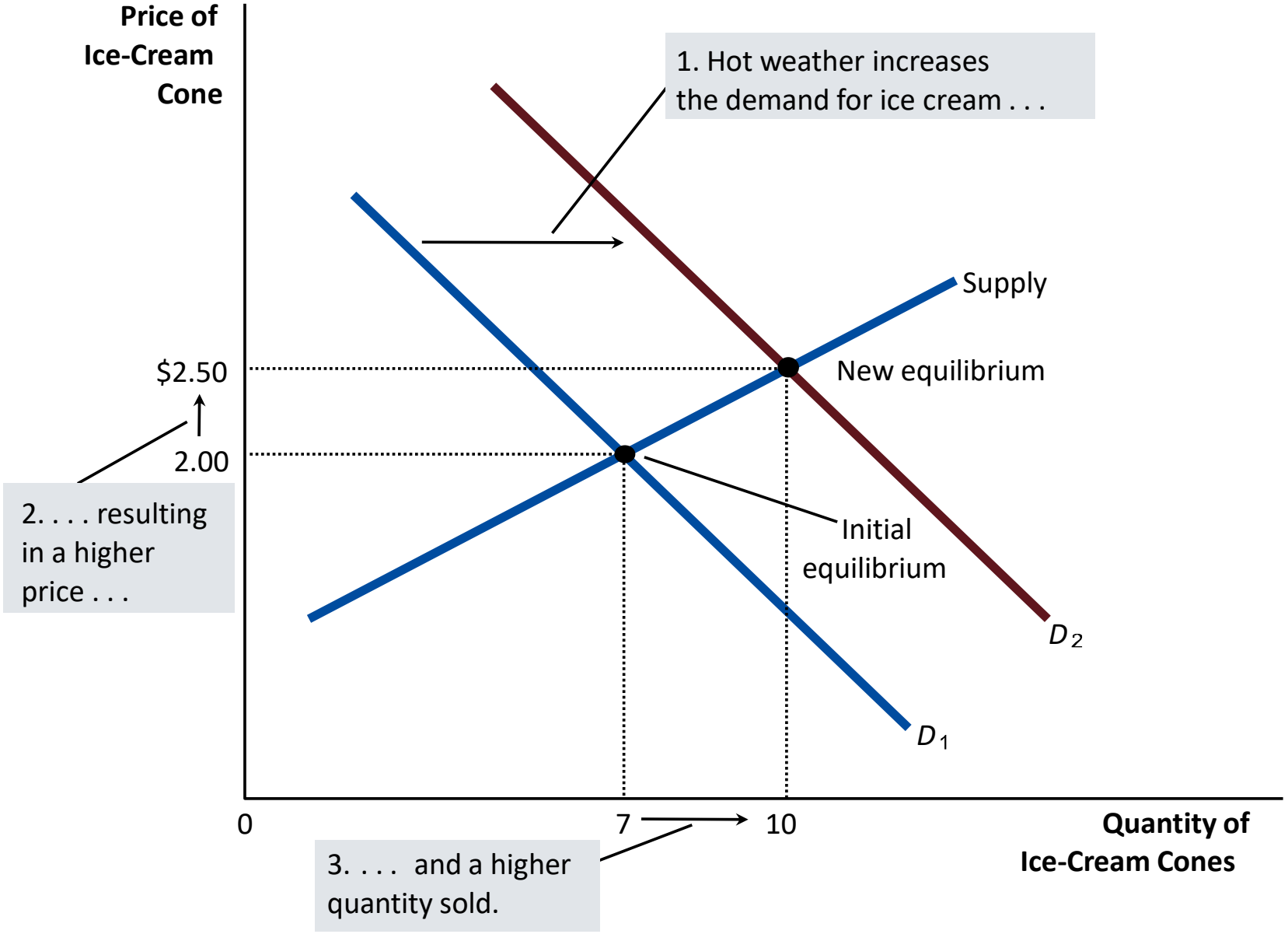
Markets Not in Equilibrium



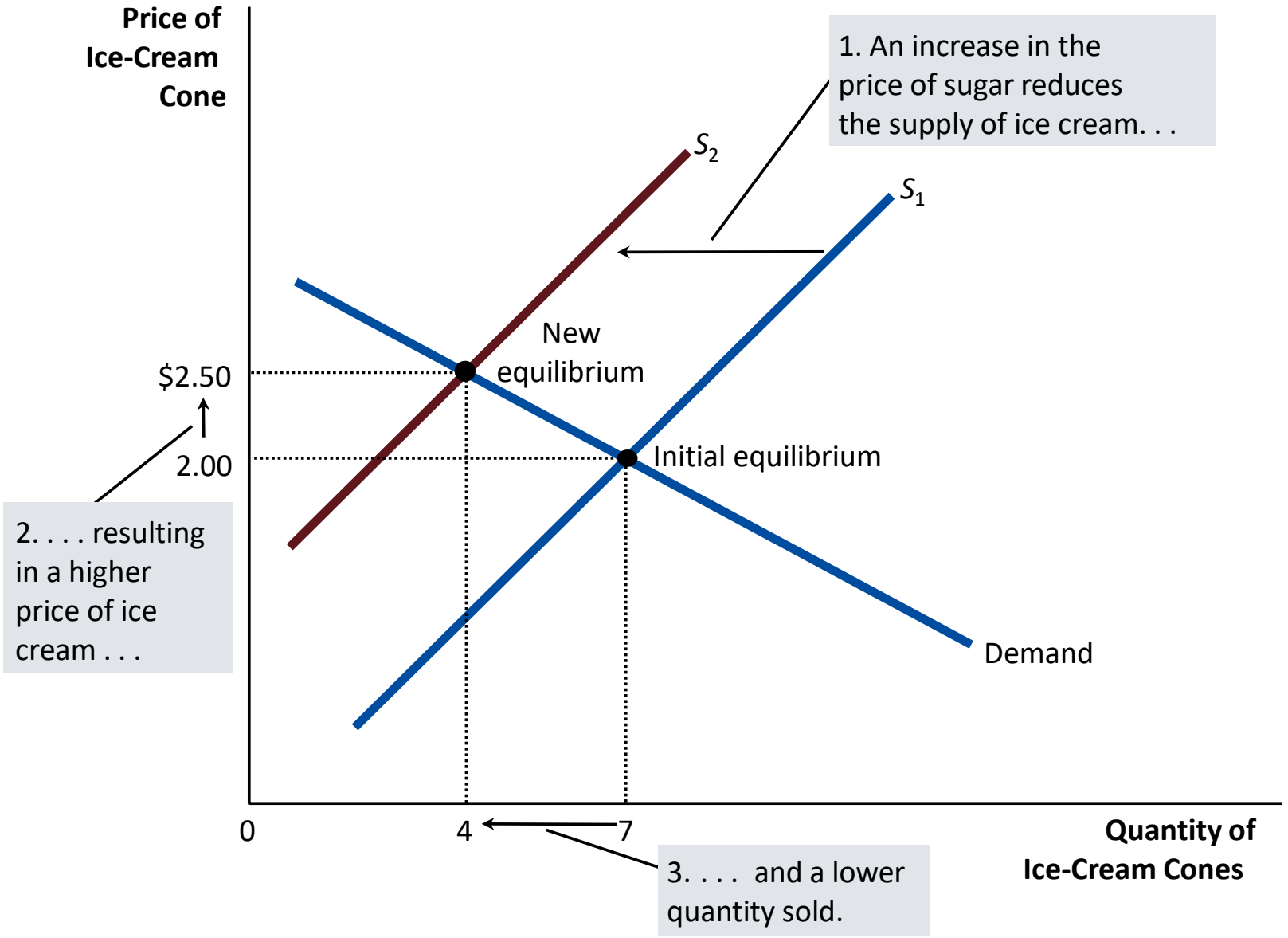
Markets Not in Equilibrium



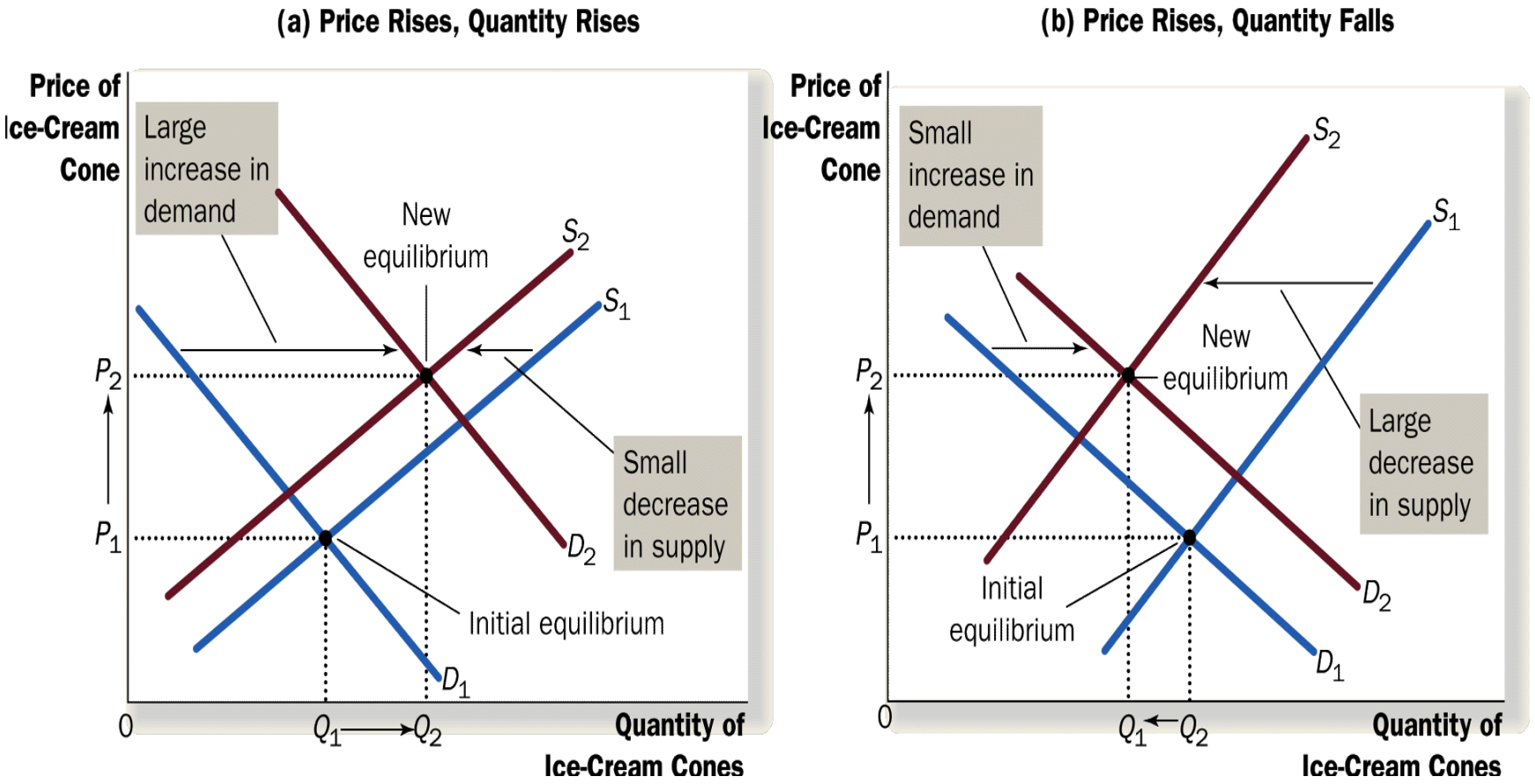
How an Increase in Demand Affects the Equilibrium



How a Decrease in Supply Affects the Equilibrium



A Shift in Both Supply and Demand



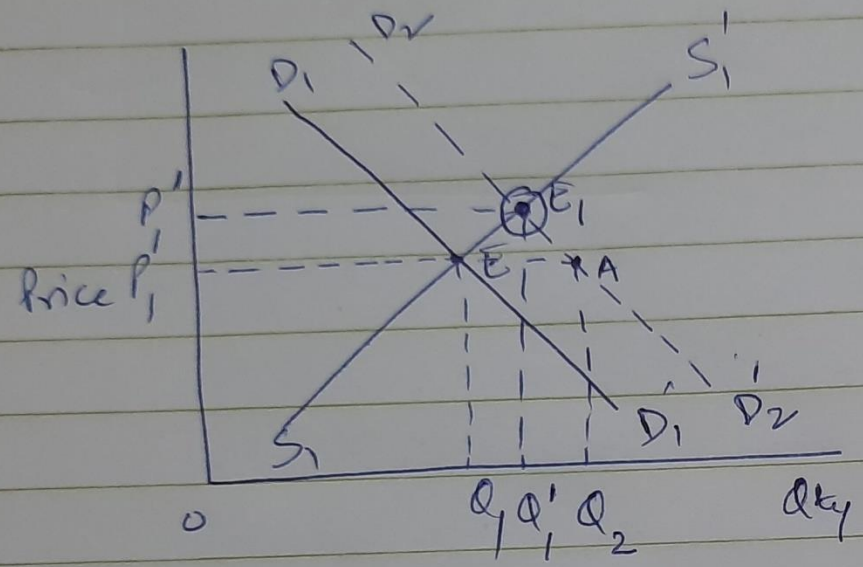
Practice

1. Using demand and supply curves, determine the price of mobile phones in the market if:

i) Income of the consumer increases.

ii) Price of landline calls reduces.

1. (i) Increase in the income of consumer

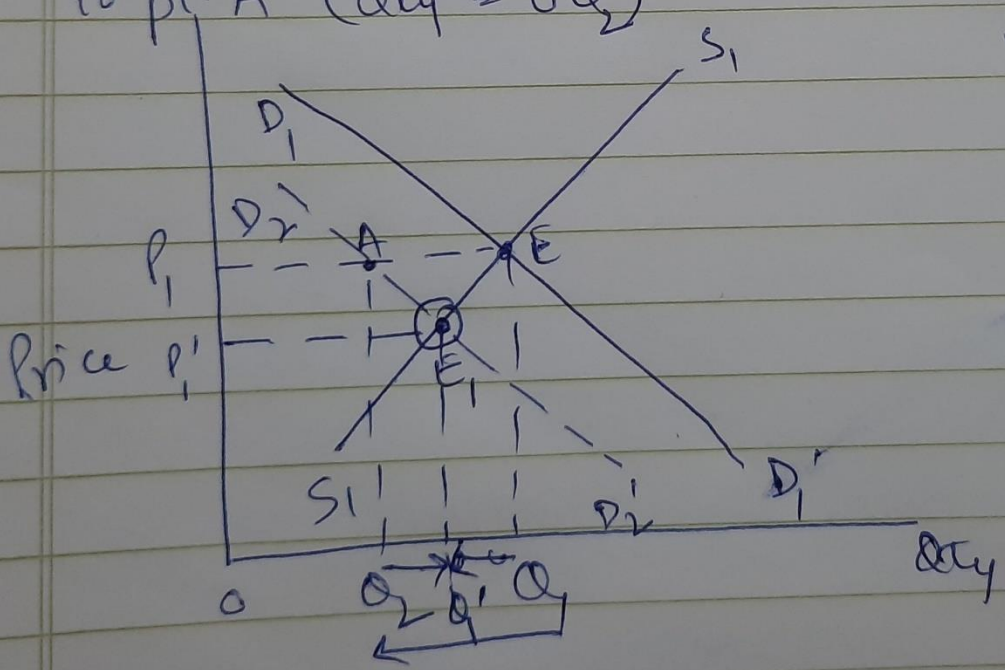


Initial eq., E
Eq. output = OQ
Eq. price = OP_1

Inc in income will lead to increase in the demand (OQ_2) which will lead to shift in the demand curve at pt A ($D_2 D_2'$)
New eq. pt is E_1 (Final eq. price = OP_1' and final eq. output = OQ_1')

ii) Price of the landline calls reduces

Since Landline & Mobile phones are substitutes. Dec in the price of landline calls will increase the demand of landline which will reduce the demand for Mobile phones. to pt A ($Qty = OQ_2$)



Initial eq. E

Eq. price = OP_1

Eq. Output = OQ

final eq pt E_1

2. Analyze the condition using demand and supply curves:

i) The price of laptop reduces if there is a reduction in the chip price.

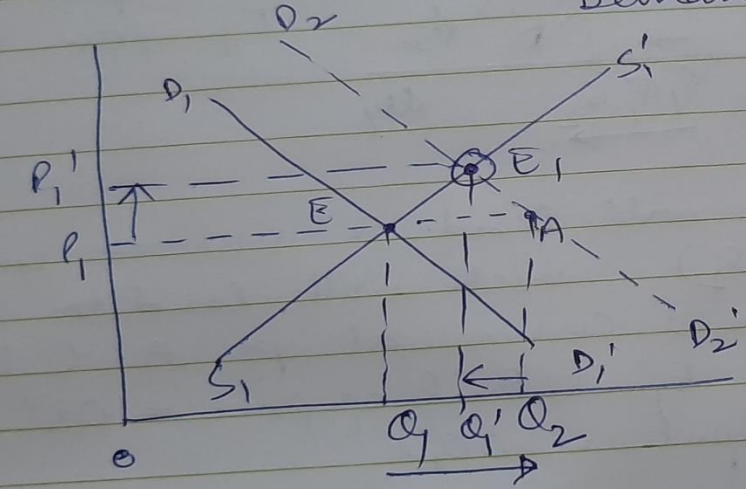
ii) The frost in brazil led to reduction in the coffee demand.

2. i) Price of laptop (effect) reduces if there is a reduction in the chip price. (cause)

Dec in Chip price ⇒ Price of Complementary good ↓

⇓

Demand for laptop ↑



Eq. pt (E) ↔ (OQ1, OP1)

Inc in demand with same price (A) hence there is a shift in the demand curve D_2D_2'.

To bring eq. again, there will be movement in the supply curve & new eq. pt is G

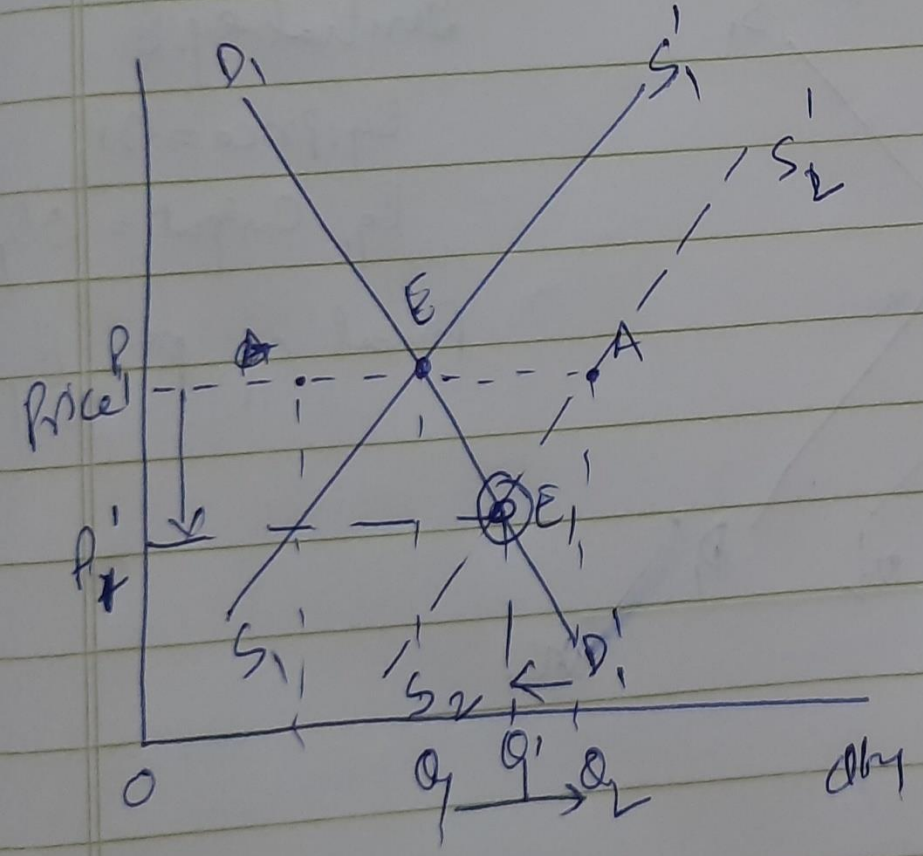
⇒ New Price = OP_1' & New Output = OQ'

But the final effect is reduction in the price

Alternative Soln: Dec in Chip price ⇒ Reduction in cost of prod^n

⇓

Inc in Supply (A)



New Eq. E_1

New Price = OP_1'

New Output = OQ_1'

Cause

ii) The frost in brazil led to reduction in the coffee ~~Demand~~ effect

frost ⇒ Dec in the supply (A)