Topic: Demand and Supply II

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1. The Law of Supply

The **Law of Supply** is a fundamental principle in economics which states that, **all other factors being equal (ceteris paribus)**, an **increase in the price of a good leads to an increase in the quantity supplied**, and a **decrease in price leads to a decrease in the quantity supplied**.

Explanation:

- This law explains the behavior of producers.
- Producers are profit-motivated—when the price of a good rises, they want to sell more to gain higher profits.
- When prices fall, it may no longer be profitable to produce large quantities, so they supply less.

Key Characteristics:

- It shows a **positive/direct relationship** between **price and quantity supplied**.
- The supply curve **slopes upwards** from left to right.

Illustration:

If the price of a bag of rice increases from ₦10,000 to ₦13,000, farmers and distributors are more likely to supply more rice to the market due to the potential for increased profit.

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2. Supply Schedule

A **supply schedule** is a table that shows the quantity of a good that a supplier is willing and able to sell at various prices over a specific period.

Example: Individual Supply Schedule

Price per Unit (₦)	**Quantity Supplied (kg)**
100	10
200	20
300	30

Price per Unit (₦)	Quantity Supplied (kg)
400	40
500	50

This schedule shows that as the price increases, the supplier is willing to supply more units.

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3. Supply Curve

The **supply curve** is a graphical representation of the supply schedule. It shows how quantity supplied changes with price.

Characteristics of the Supply Curve:

- **Upward sloping** from left to right
- Illustrates the **positive relationship** between price and quantity supplied
- Can be **individual supply curve** (one supplier) or **market supply curve** (sum of all suppliers)

Graph Description:

On a graph:

- **Price (P)** is on the **vertical axis**
- **Quantity supplied (Q)** is on the **horizontal axis**
- The curve moves **upwards**, showing higher quantities at higher prices

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4. Equilibrium Price

The **equilibrium price** is the **price at which the quantity of a good demanded equals the quantity supplied**. It is also known as the **market-clearing price**.

How Equilibrium Price is Determined:

- When the **demand curve** and **supply curve** intersect on a graph, the point of intersection gives the **equilibrium price** and **equilibrium quantity**.
- At this point:
    - There is **no surplus** (excess supply)

- There is **no shortage** (excess demand)
- The market is said to be **in balance**

Example:

Let's consider this table:

Price (₦)	**Quantity Demanded**	**Quantity Supplied**
100	60	20
200	50	30
300	40	40 ← **Equilibrium Point**
400	30	50
500	20	60

At **₦300**, the **quantity demanded and supplied are equal (40 units)**, hence that is the equilibrium price.

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5. Importance of Equilibrium Price in the Market

- Helps avoid **shortage** or **excess** of goods
- Ensures **efficient allocation** of resources
- Provides **price stability**
- Helps both producers and consumers to make informed decisions

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6. Factors That Can Affect Supply

- Changes in production cost
- Technology
- Government policies (taxes, subsidies)
- Weather conditions (especially in agriculture)

- Number of suppliers in the market