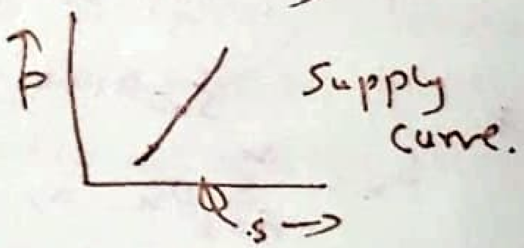
Lecture - 5

Supply:-
* It's the amount of goods that sellers are willing and able to buy.
* Law of supply:- Price ↑ sellers inc the supply to gain more profit. (Qs - Quantity supplied)

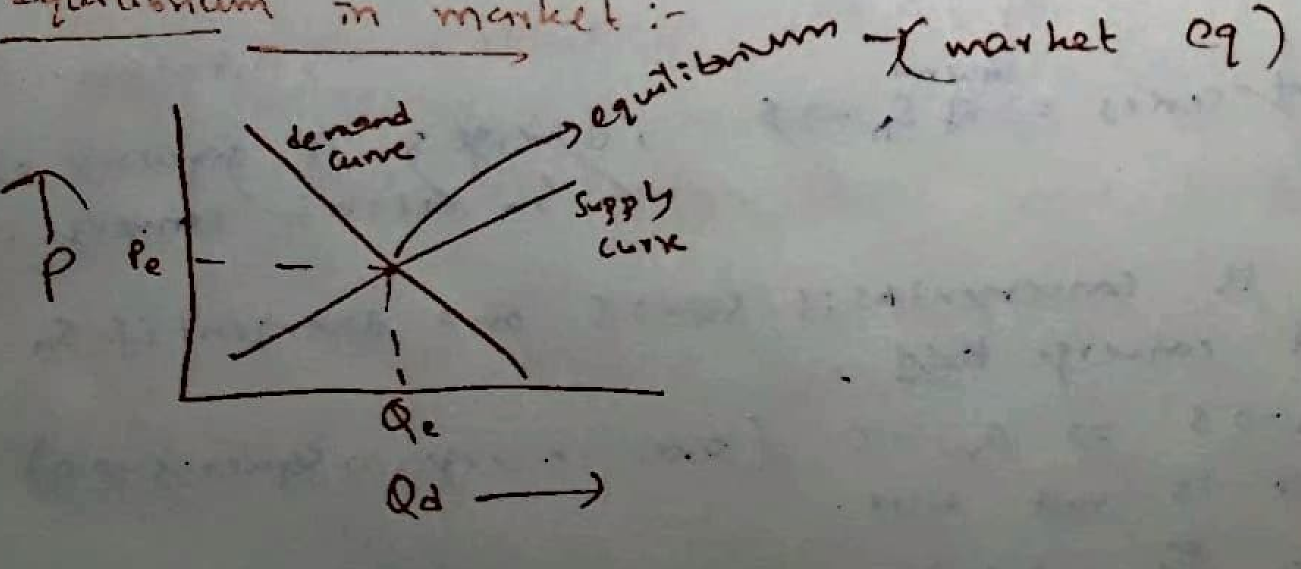
P	Qs

Supply table.

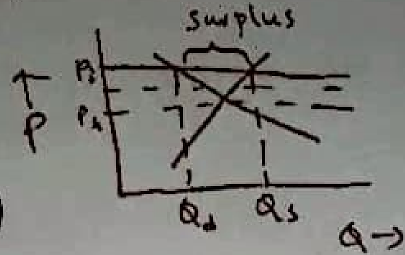


* Supply depends on input profit. It is the price of making a good.
* Technology inc efficiency and productivity of supply.
* Expectation can also influence supply. If a price of a good is expected to rise then company stores that good for future.
* It also depends on no. of sellers.

Equilibrium in market:-



* If market is not in eq then, (price is above eq).



* when this price dec, not all can supply coz for some people cost of production is greater than equilibrium price which leads to loss.

* In the similar way, when the price is more, even consumers income is meeting the price, buying depends on mindset of consumer and valuation.

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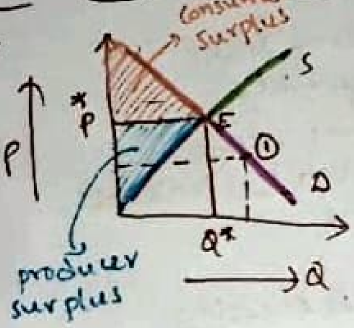

Person ① will not buy coz he value that good less than the equilibrium price. So, for him eq. price is more to afford. People on pink line won't buy the good. People in the region of orange line buys the good. similarly.

Consumer surplus
= Price consumer is willing to pay − Eq price.

Firms on green colour line will not produce becoz their cost of production will be more than the selling price.

Firms on blue line will produce goods as they get profit and that area shaded by blue colour indicates producer surplus

Producer surplus = price − willingness to accept.

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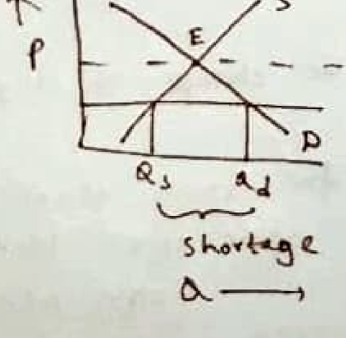
* If market is not in eq then, (price is blw eq)



It is brought back to equilibrium coz people pay more money as supply is less. demand is more.

In ⊛, it is brought back to eq as companies reduce the price as supply is more.

* We can also shift the equilibrium by shifting the demand and supply curves by changing the factors affecting them.

Elasticity:-

It is the responsiveness of Q_d / Q_s for change in one of it's determinants.

* Price elasticity of demand

① Elastic demand.
There will be big change in Qd for change in price

Ex:- Cars, gold, etc.,
↓
Luxury

① Inelastic demand.
There will be small change in Qd for change in price

Ex:- Food items such as sugar, rice, Other thing such as petrol, internet, Medicine
↓
Neccessity

* Things that influence elasticity of demand

=> Neccesity or Luxury
↓ inelastic, ↓ elastic

=> Availability of close substitute or not available
↓ elastic — Ex:- Tea & coffee
↓ inelastic — Ex:- medicine

=> Definition of Market

Narrow — ice-cream — elastic

Broad. — Food — inelastic

=> If market is narrow then price change effects demand but broad markets are not affected

=> Time horizon :-

As time passes there can be change in elasticity.

Ex:- petrol

If it's price is inc, for some years it will be inelastic but after some years there may be change in demand as many mem may shift to electric vehicles. So, as time passes it becomes ~~ela~~ elastic.