14-3-2024. Assignment 1

Subject = Micro Economics
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LAW OF SUPPLY:-

It states that all other factors being equal as the price of the good or service increases the quantity of that good that supplier offer will increase and vice versa.

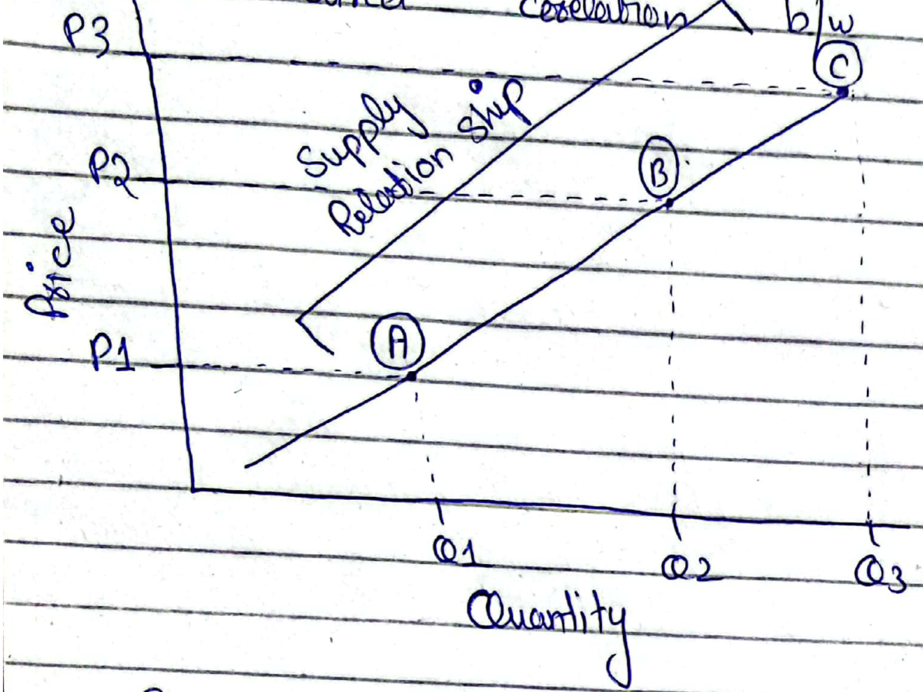
This means that as price of an item goes up supplier will attempts to maximize their profit by increasing the number of that item that they sell.

Points:-

1) Higher price will lead producers to supply a high quantity to the market.
2) Because Businesses seeks to increase revenue, when they expect to receive a higher price for something they will produce more of it.
3) If price fall, suppliers are disincentivized from producing as much.
4) Supply in market can be depicted as an upward sloping supply curve that shows how quantity supplied will respond to various prices over a period of time.

Explanation:-

The chart below depicts the law of Supply using supply curve. A, B, C are point. Each point reflects a direct correlation b/w Q and P.



So curve is upward sloping because supplier can choose how much of their goods to produce and later bring to market. At any point in time, the supply that sellers bring to market is fixed and sellers simply face a decision to sell or with hold stock from sale; customer demand sets the price and sellers can only charge what the market will bear. If consumer demand rises the price will rises and supplier choose to devote new resources to production which increases quantity supplied. Demand sets the price in market. Supplier response to the price they can expect to receive sets quantity supplied.

EXAMPLE:-

A business will make more video games systems if price increases. The opposite is true if price of video game systems decreases. The Company might supply 1 million systems if price is $200 each but if price increases to $300, they might supply 1.5 million systems.

ASSUMPTIONS:-

1) Price of other commodities is constant.
2) The state of technology has not changed.
3) The price factors of production is constant
4) The taxation law remains same.
5) Producers objectives are constant

Limitations:-

• Future Prices:-

When the price rises and seller expects the future price to rise further, supply will decline as the seller will be induced to with hold supplies so as to sell later and earn larger profit then.

2) Agricultural Output:-
law of supplies may not apply in case of agricultural commodities as their production cannot be increased at once following price increase.

3) Subsistence farmers:-
In the under developed countries where agriculture is characterized with subsistence farmers, law of supply may not apply.

4) law of supply is stated on assumption that factors other than price of the commodity remains constant.

Extension of supply:-

This occurs when the quantity supplied of good increases in response to rise in price while other factor remains constant.
e.g if oranges price increases farmers will grow more oranges for max profit.

Contraction Of Supply:-

It occurs when quantity supplied decreases due to a decrease in price.
e.g if oil price decreases then company produce less to avoid losses.

Shift of curve Supply:-

Supply curve represents relationship b/w price and quantity supplied assuming all factors be constant. When factors other then curve changes the entire supply curve shifts.

Factors including

1) Changes in input prices.
2) Technology govt regulations
3) Weather conditions
4) Expectations of future prices.

e.g:- Advancements in technology might lead to lower production costs for a product, shifting the supply curve to the right indicating an increase in supply at all price levels. Conversly wheather conditions affecting crops yields might shift the supply curve to the left indicating a decrease in supply at all price levels.

Example:-

Supply Schedule → changes

Price	Quantity
1	0
2	5
3	10
4	15
5	20

Graph:-