Assignment = 3

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Subject = Micro Economics
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Law Of Supply:-

It represents the relationship b/w the price of a commodity and quantity supplied

Statement:- "Other things remaining the same, quantity supplied of a commodity increases with rise in price and decreases with fall in price".

Explanation:- The law of supply states that when there is an increase in the price of a good or service, the supply for that good will increase. On the other hand when there is a decrease in the price of a good or service the quantity of that good will decrease.

The elasticity of supply measures how much the quantity supplied of a good changes when there is price change.

The amount by which the quantity supplied increases or decreases with the price change depends on how elastic the supply of a good is. The ability of a suppliers to alter the quantity of a good they produce directly impacts the degree to which the quantity supplied can change in response to a change in price

EXAMPLE:- Think about a construction company that builds houses when there is a sudden increase in the housing price, the number of homes built does not increases as much. That's because construction companies need to hire additional workers and invest in more

quantity supplied.

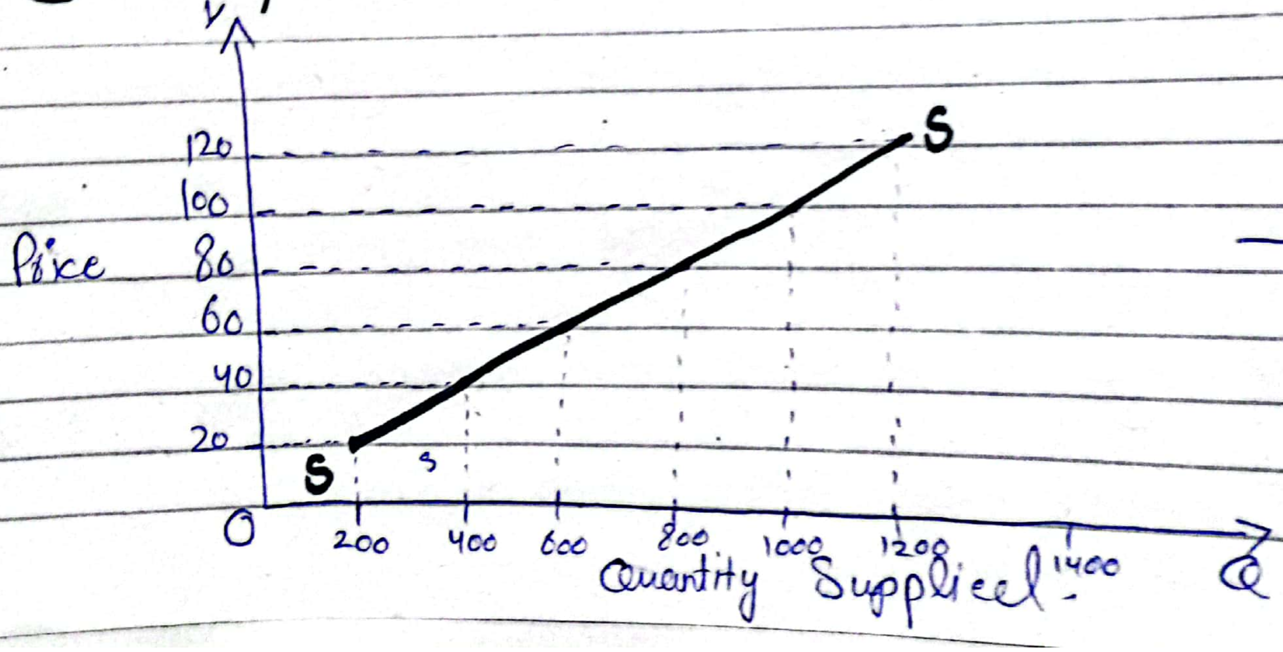
capital, making it harder to respond to the price increase.

Although the construction company can't start building a significant number of houses in response to the price increases in short run. In the long run, constructing houses is more flexible. The company can invest in more capital, employ more labor etc.

FORMULA:-

$$\text{Price elasticity of supply} = \frac{\%\ \Delta\ \text{Quantity Supplied}}{\%\ \Delta\ \text{Price}}$$

SUPPLY CURVE:-



Price of eggs:	Quantity Supplied (Per day) Dozen
40	400
60	600
80	800
100	1000
120	1200

← Supply curve is given above.

Assumptions:-

1) Cost of inputs used to produce the product does not change. A change in cost of production affects profits of the sellers, so they may change the quantity offered for sale at the same price.

2) Production technology remains same. Improvement in technology may lower cost of production and affect supply.

3) Floods, wars may affect supply. change of season affects supply of agricultural goods.

4) If more firms enter market more quantity comes for sale at existing prices.

5) Change in law and order situation affects supply

6) Expectation about future prices affect quantity supplied without change in price.

EXAMPLE :-

The price of chocolate increases from \$1 to \$1.30 In response price increases. and quantity increase from 100,000 to 160,000.

Methametacally :-

$$\% \Delta Price = \frac{1.30 - 1}{1}$$

$$= \frac{0.30}{1}$$

$$= 30\%$$

$$\% \ Quantity = \frac{160{,}000 - 100{,}000}{100{,}000}$$

$$= \frac{60{,}000}{100{,}000}$$

$$= 60\%$$

$$Elasticity = \frac{60\%}{30\%}$$

$$= 2 \quad Ans.$$