

Chapter 4

SUPPLY

4.1 Meaning of Supply

“Supply is the quantity of a good; sellers wish to sell in the market at a specific time and price”. Two points are important here.

(1) **Specific Price**

As good is demanded at a certain price similarly supply cannot be explained without price. Quantity is always supplied at some specific price.

(2) **Specific Time**

Time period is also very important with reference to supply, for example, whether it is daily, weekly, or monthly. It means that quantity supplied is not determined within some time frame.

4.2 Difference between Supply and Stock

Supply means the quantity that will come into the market over a range of prices while stock means the total quantity of the commodity which exists in a market but not offered for sale by the sellers. The stock becomes supply when a seller expects reasonable profit at a given price. The seller increases the quantity supplied when price increases in order to earn more profit. Similarly, with a decrease in price quantity supplied also decreases so as to avoid losses.

4.3 Law of Supply

The relationship between price and quantity can best be explained with the law of supply.

Definition:

“Other things remain constant, an increase in price, increases the quantity supplied and a decrease in price decreases the quantity supplied”.

Assumptions of the law:

The law of supply holds true if the following factors are assumed to remain constant.

- a. Cost of production
- b. Technology
- c. Country's natural resources

4.4 Graphic Presentation of the Law of Supply

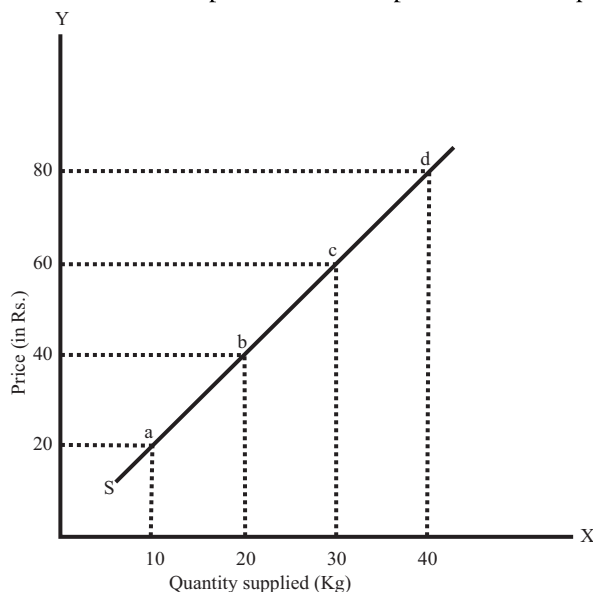
A supply schedule:

A supply schedule 4.1 is given below. Prices of onion are taken at rupees per kilogram.

4.1 Schedule of Supply

Price of onions (in rupees)	Quantity of onions supplied (in kilogram)
20	10
40	20
60	30
80	40

When price of onions increases from Rs.20 to Rs.40, quantity supplied also increases from 10 kg to 20 kg. This shows that when the price increases quantity supplied also increases and when price decreases quantity supplied also decreases. Thus, there is a positive relationship between the price and the quantity supplied.



1. The supply curve slopes upward from left to right.
2. With a decrease/ increase in price, quantity supplied decreases/ increases, therefore, it develops positive relationship between the price and the quantity.

Diagram 4.1 The supply curve

In the diagram 4.1, the supply curve SS moves upward from left to right, indicating that larger quantities will be supplied at higher prices. The supply curve is drawn on the basis of the given values in the supply schedule. The quantity supplied is taken at the x-axis and the price is taken at y-axis. At the price of Rs.20, the quantity of onion supplied is 10 kg. When price increases to Rs.40, the quantity supplied also increases to 20 kg. At price Rs.60, the quantity increases to 30 Kg. Thus, as price increases quantity supplied also keeps on increasing. By joining points a, b, c, and d, we

get the supply curve. The positive slope of the curve shows that the quantity supplied increases with an increase in price.

$$Q_s = f(P)$$

It is read, as “The quantity supplied is the function of price”.

4.5 Elasticity of Supply

In economics, the concept of elasticity is also important just like the elasticity of demand. The change in quantity supplied due to a change in price is called elasticity. Elasticity of all the goods differs from one another. The elasticity of supply has many degrees. Such as:

1. **More elastic supply:** When a small change in price brings a large change in quantity then the supply is more elastic.
2. **Less elastic supply:** When a larger change in price brings a small change in quantity then the supply is less elastic
3. **Inelastic supply:** When a change in price brings no change in quantity then the supply is inelastic

4.6 Factors Affecting Supply other than Price

1. Cost of production

Changes in the cost of production bring a change in the quantity supplied. When the cost of production increases, then the quantity supplied decreases and when the cost of production decreases, then the quantity supplied increases.

2. Methods of production

The changes in the methods of production also change the cost of production so the quantity supplied changes.

3. Climatic conditions

Bad weather may affect agriculture and related industries that may decrease the supply. Where as the good weather may increase the supply.

4. Means of transportation

A good transportation system increases the supply, which increases the extent of a market.

5. Rate of taxes on producers

If the rate of taxes increases it decreases the supply because the profit margin of producers decreases.

6. Political and economic system of a country

The instability of political and economic system decreases the supply.

Exercise

Q. 1 Each question has four possible answers. Tick (✓) the best answer:

1. Supply means.
 - a. Total supply of a specific producer.
 - b. Number of sellers
 - c. Quantity of goods offered for sale at alternative prices.
 - d. Purchasing power of quantity supplied.
2. Slope of a supply curve is:
 - a. Negative b. Positive
 - c. Vertical d. Horizontal
3. More elastic supply means:
 - a. A small change in quantity supplied without a change in price.
 - b. A small change in price brings a large change in quantity supplied.
 - c. A large change in price brings a small change in quantity supplied.
 - d. When price changes but quantity supplied does not change.
4. Which of the following factors do not change supply:
 - a. Cost of production b. Political system of a country
 - b. Climatic conditions d. Level of income.
5. Which of the following statement is not true?
 - a. Generally supply is a part of stock.
 - b. Supply curve has negative slope.
 - c. Supply is the function of price
 - d. Quantity supplied changes due to change in elasticity

Q. 2 Complete the following statements by filling in missing words or phrases.

1. With an increase in tax on a good its production _____.
2. The supply curve has _____ slope.
3. Supply is a part of _____.
4. Quantity supplied is a _____ of price.
5. With an increase in price quantity supplied _____.

Q. 3 Match the statement in column A with column B. Choose the correct answer from column B and write in column C.

A	B	C
Elasticity of supply	Small change in price but significant change in quantity	
If price is higher than producer	Decreases supply	
Tax on goods	Change in quantity supplied due to a change in price	
More elastic supply	Larger change in price but small change in quantity supplied	
Less elastic supply	Increases supply	

Q. 4 Answer the following questions in three sentences.

1. What does supply mean?
2. What is the difference between stock and supply?
3. What does a supply schedule represent?

Q. 5 Answer the following questions in detail.

1. Define the law of supply and explain it with a schedule and a diagram.
2. What are the factors that affect the quantity supplied?