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# LAW OF SUPPLY , ELASTICITY OF SUPPLY

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# SUPPLY

**Supply** is a fundamental **economic** concept that describes the total amount of a specific good or service that is available to consumers.

**Supply** can relate to the amount available at a specific price or the amount available across a range of prices if displayed on a graph.



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# More Definitions

The total amount of a product (good or service) available for purchase at any specified price.

Supply is not simply the number of an item a shopkeeper has on the shelf, such as '5 oranges' or '17 pairs of boots' because supply represents the entire relationship between the quantity available for sale and all possible prices charged for that good.



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The specific quantity desired to sell a good at a given price is known as the quantity supplied. Typically a time period is also given when describing quantity supplied.

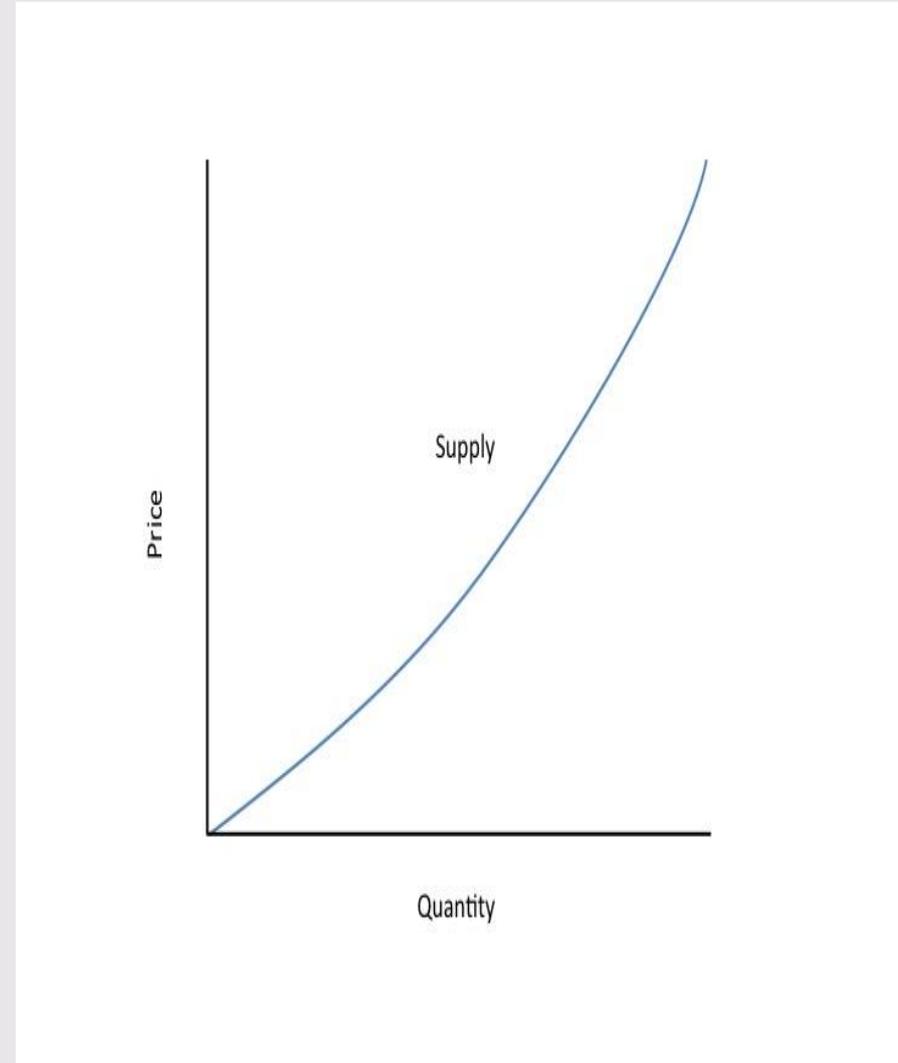


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# Supply Curve

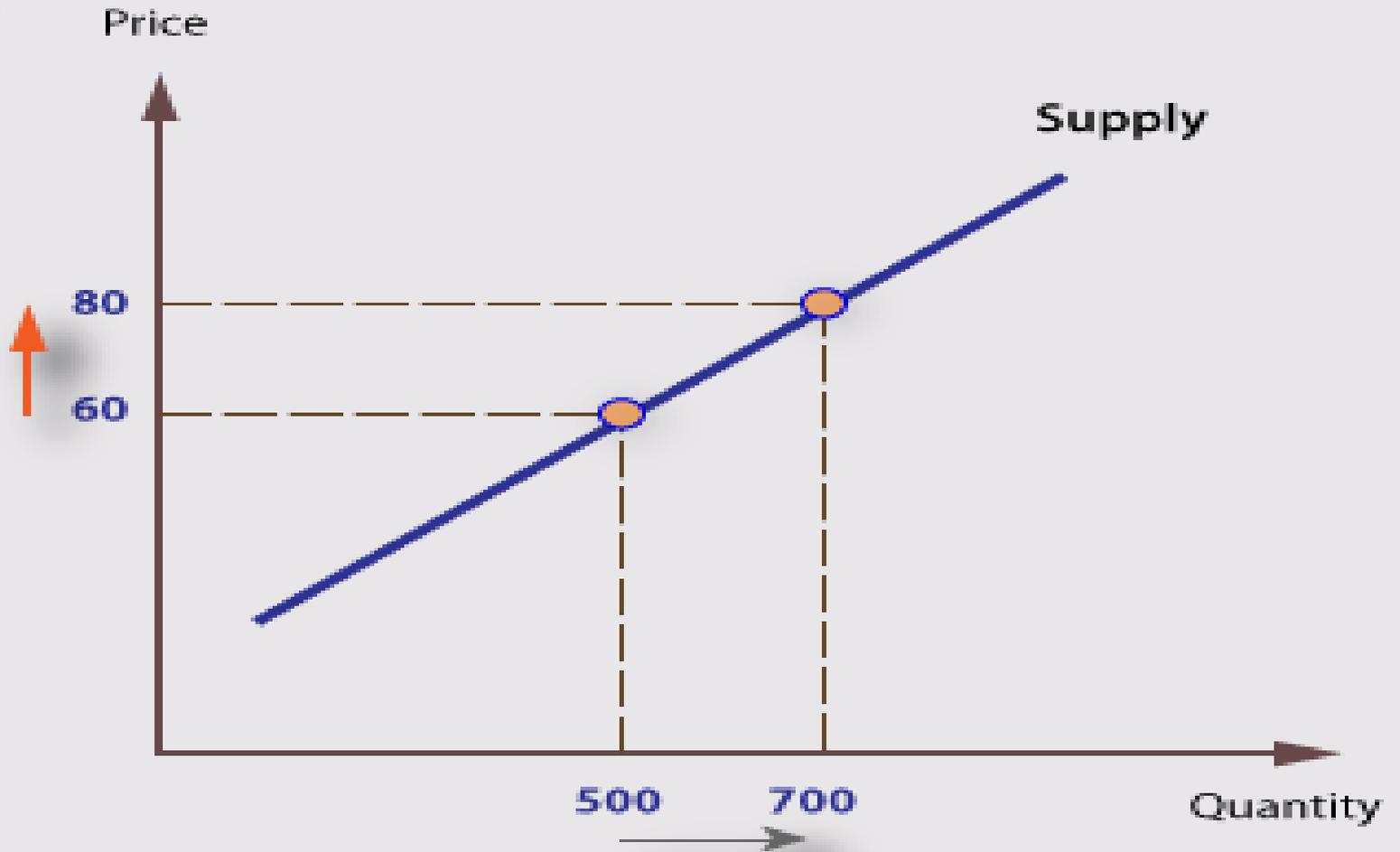
The **supply curve** is a graphical representation of the relationship between the price of a good or service and the quantity supplied for a given period of time. In a typical representation, the price will appear on the left vertical axis, the quantity supplied on the horizontal axis.





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# Supply Curve



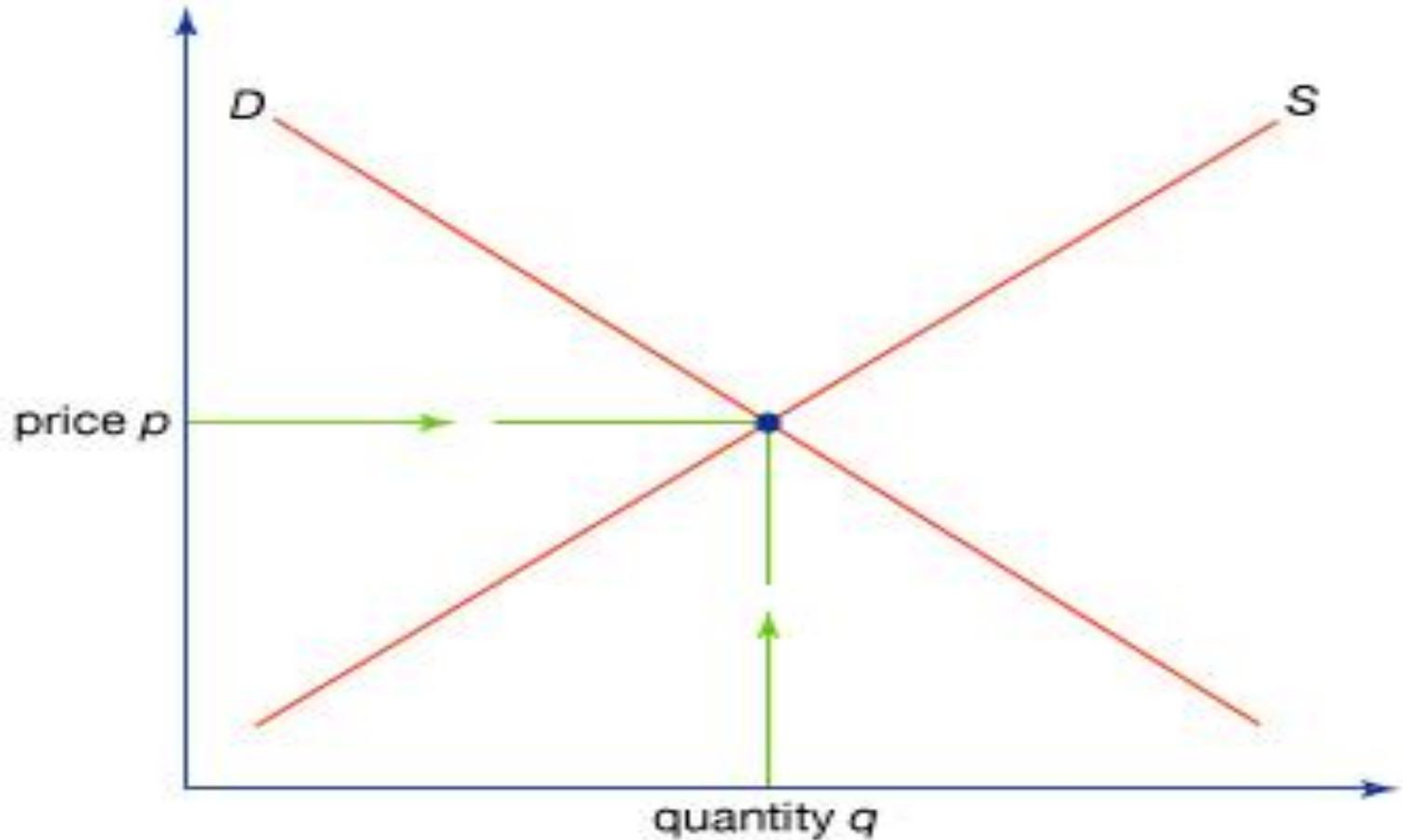


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# Supply and Demand Curve

## Supply and demand





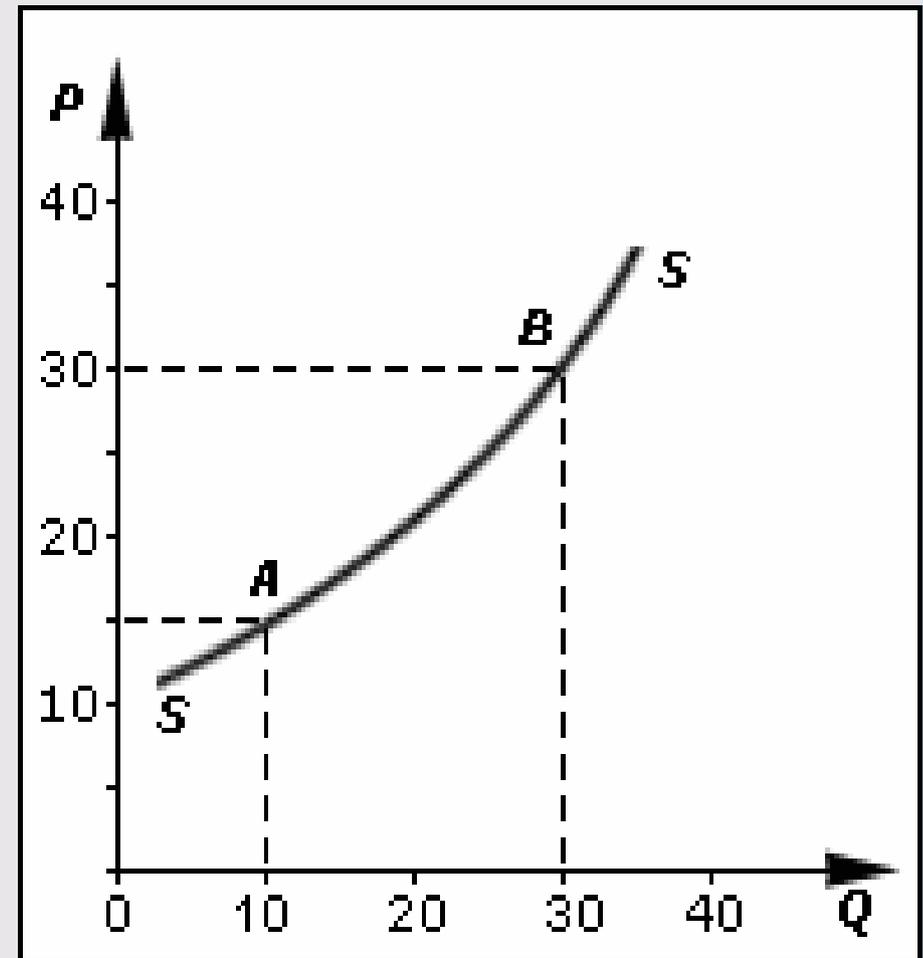
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# Supply Schedule

A **supply schedule** is a table that shows the relationship between the price of a good and the quantity supplied.

The **supply curve** is a graphical depiction of the **supply schedule** that illustrates that relationship between the price of a good and the quantity supplied.





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# Definition

A method used to show the different amounts of a certain product or item that a company would need to supply based on different price points.

Supply schedule is a chart that shows how much product a supplier will have to produce to meet consumer demand at a specified price based on the supply curve. In other words, it's basically a supply graph in spreadsheet form listing the quantity that needs to be produced at each product price level.



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# Law of Supply

The **law of supply** is a fundamental principle of economic theory which states that, all else equal, an increase in price results in an increase in quantity **supplied**.

In other words, there is a direct relationship between price and quantity: quantities respond in the same direction as price changes.



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# Law of Supply

The law of supply is the microeconomic law that states that, all other factors being equal, as the price of a good or service increases, the quantity of goods or services that suppliers offer will increase, and vice versa.

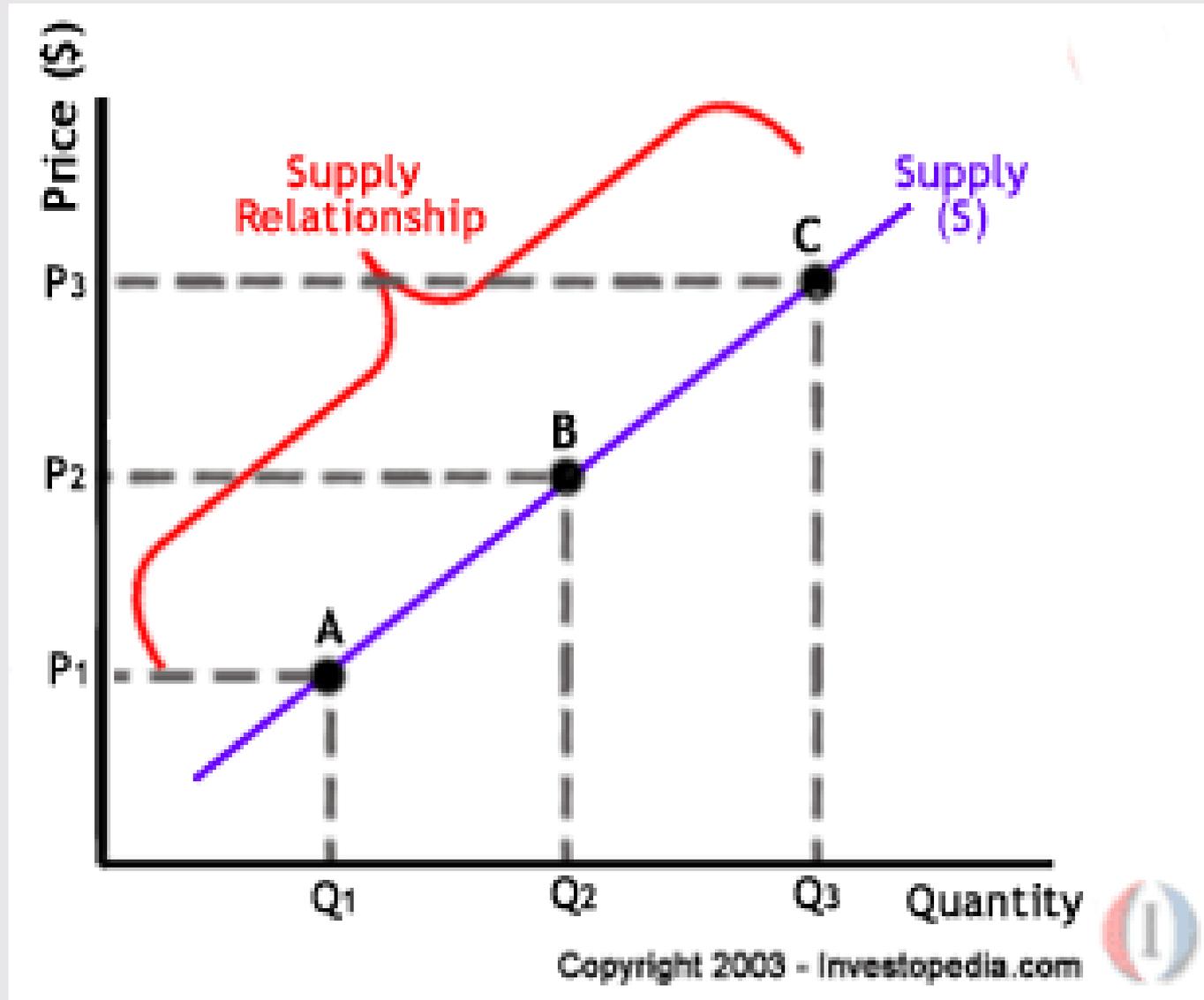
The law of supply says that as the price of an item goes up, suppliers will attempt to maximize their profits by increasing the quantity offered for sale.



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# Graph of Law of Supply





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# Definition

*"Other things remaining the same, if the price of a commodity increases its quantity supplied increases and if the price of a commodity decreases, quantity supplied also decreases"*



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# Assumptions

**No change in cost of production**

**No change in technology**

**No change in climate**

**No change in prices of substitutes**

**No change in cost of production**

**No change in technology**

**No change in climate**

**No change in prices of substitutes**

**No change in natural resources**

**No change in price of capital goods**

**No change in political situation**

**No change in tax policy**



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# DETERMINANTS OF SUPPLY

## 1. Production cost

Since most private companies' goal is profit maximization. Higher production cost will lower profit, thus hinder supply. Factors affecting production cost are: input prices, wage rate, government regulation and taxes, etc.

## 2. Technology

Technological improvements help reduce production cost and increase profit, thus stimulate higher supply.



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### 3. Number of sellers

More sellers in the market increase the market supply.

### 4. Expectation for future prices

If producers expect future price to be higher, they will try to hold on to their inventories and offer the products to the buyers in the future, thus they can capture the higher price.



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# Elasticity of Supply

Price **elasticity of supply** (PES or  $E_s$ ) is a measure used in economics to show the responsiveness, or **elasticity**, of the quantity supplied of a good or service to a change in its price.



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Supply elasticity is defined as the percentage change in quantity supplied divided by the percentage change in price.

It is calculated as per the following formula:

$$\text{Supply elasticity} = \frac{\% \Delta \text{ in quantity supplied}}{\% \Delta \text{ in price}}$$



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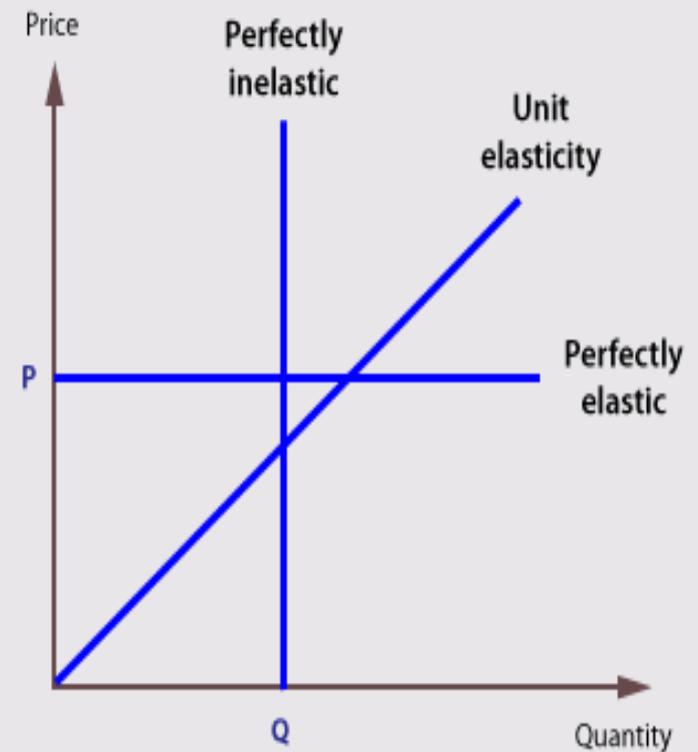
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# There are three *extreme cases* of PES

Perfectly elastic, where supply is infinite at any one price.

Perfectly inelastic, where only one quantity can be supplied.

Unit elasticity, which graphically is shown as a linear supply curve coming from the origin.



# Perfectly Elastic and Perfectly Inelastic Supply Curves

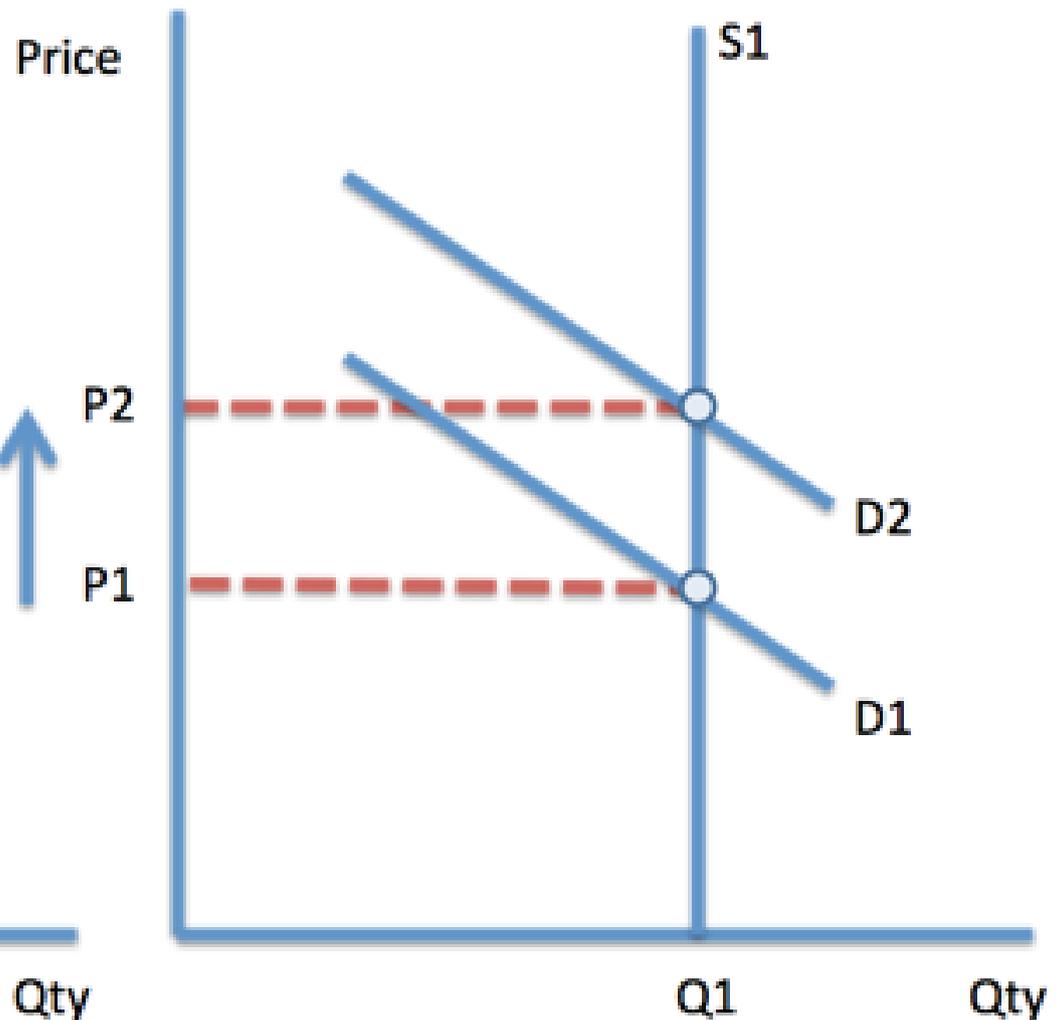
## Perfectly elastic supply

An increase in demand can be met without any change in price



## Perfectly inelastic supply

Supply is fixed and cannot respond to a change in demand





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**THANK YOU**