

-Modules-

Supply Analysis

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Meaning of Supply

- Supply during a given period of times the quantities of good which are offered for sale at particular prices.
- Supply is a relative term; it is always referred to in relation to price and time.
- Supply is what the seller is able and willing to offer for sale. The ability of a seller to supply a commodity, however, depends on the stock available with him. Thus stock is the determination of supply.

Supply and Stock

Supply and stock are related but distinct terms:

- **Supply comes out of stock.** Supply is the amount of stock offered for sale at a given price. Thus stock is the basis of supply. Without stock, supply is not possible.
- **Stock determines the potential supply.** Actual supply, on the other hand, is the stock or quantity really offered for sale by the seller at a particular price during a certain period.

The Determinants of Supply

- **The cost factors of production.** The cost of production of a commodity depends on the price of the various factors of production. If the price of extensive factor of production rises, the production costs would be higher for the same level of output. Conversely, a fall in the price of a factor would reduce the cost of production.
- **The state of technology.** Advances in technology and science are the most powerful forces influencing productivity of factors of production. Most of the inventions and innovations in chemistry, electronic, atomic energy, etc., have greatly contributed to increased supplies of commodities at lower costs.
- **Factors outside the economic sphere.** Weather conditions, floods and droughts, epidemics, etc., do cause fluctuations in the supply of goods, particularly of agricultural goods.
- **Tax and subsidy.** A tax on a commodity or a factor of production raises its cost of production; consequently, production is reduced. A subsidy, on the other hand, provides an incentive to production and augments supplies.

Supply Function

In a supply function, the determinants of supply can be summarized as under:

- $S_x = f(P_x, P_f, P_y, \dots, P_z, O, T, t, s)$
- Where, S_x = the supply of commodity X
- P_x = the price of X.
- P_f = the set prices of the factor inputs employed for producing X.
- O = factors outside the economic sphere.
- T = technology used,
- t = tax and
- s = subsidy.

Functional relationship between supply and price stated by the law of supply holds good, only so long as other determinations of supply remain constant.

Law of Supply

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Discussion