



SNS COLLEGE OF TECHNOLOGY

(An Autonomous Institution)



SUPPLY



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.
- ◆ This relates closely to the [demand](#) for a good or service at a specific price; all else being equal, the supply provided by producers will rise if the price rises because all firms look to maximize profits.



Supplier's Motive



PROFIT

–Definition: The difference between the cost to produce a good or service and the amount it is sold for.

–Ex. It costs Rs.80 to make a pizza (human, natural and capital resources), A supplier sells it for Rs.100, his profit is...

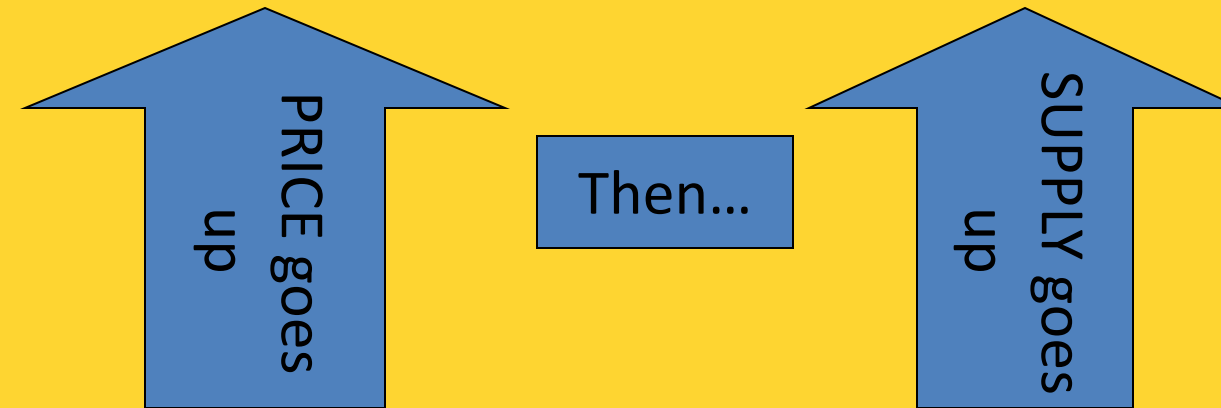
–Rs.20!!



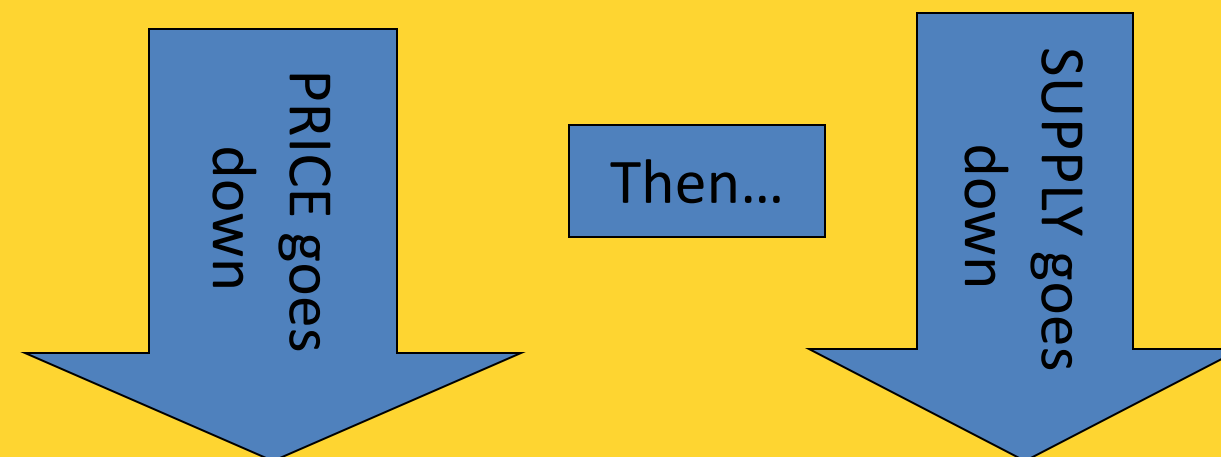
Law of Supply



Part 1. As PRICE increases, SUPPLY increases



Part 2. As PRICE decreases, SUPPLY decreases





Cont...



- According to the law of supply, suppliers will offer more of a good at a higher price
- Think about it: If people are willing to pay more for what I am selling, then I want to make as much of that product available as possible.
- Ex. The price of pizza goes from Rs.100 to Rs.110, but it still only costs me Rs.80 to make, I want to make as many as I can to maximize my profit (make as much money as I can!)



Supply Schedule



- A supply schedule is a chart that lists how much of a good a supplier will offer at different prices.
- Ex: Market Supply Schedule for a slice of pizza:

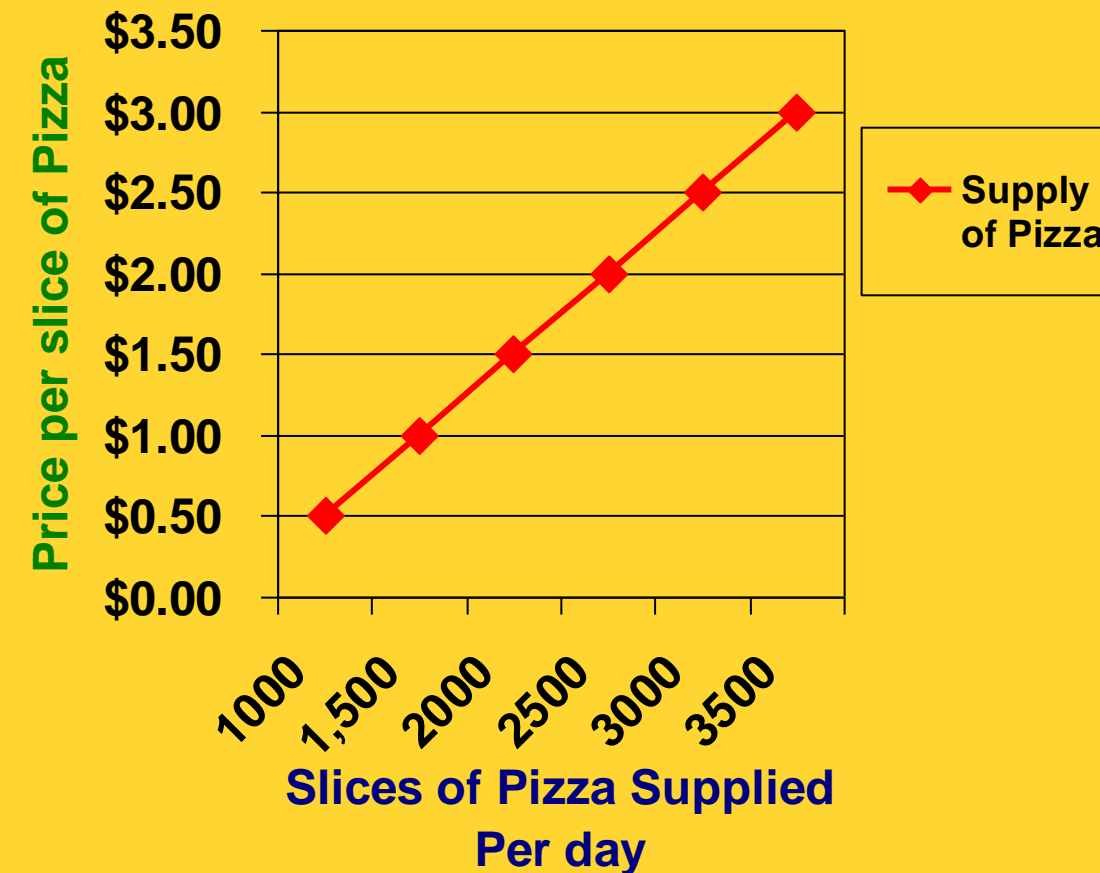
Price per slice of Pizza	Slices supplied per day
Rs..80	1,000
Rs.100	1,500
Rs.150	2,000
Rs.200	2,500
Rs..50	3,000
Rs.300	3,500



Supply Curve



- A supply curve is a graph of the quantity supplied of a good at different prices.





Elasticity of Supply



- Definition: **The degree to which a change in price will change supply**
- **Or**
- If we change the price, will supply change a lot or a little?
- Elasticity depends on **how easy it is to change production**



Cont...

- Items that have supplies that are increased easily are **ELASTIC**, the supply will go up/down **a lot** with a change in price.
- Ex. CDs, Books, Pizza (all can increase supply with little difficulty; resources are easy to come by)



- Items that have supplies that are increased with great difficulty are **INELASTIC**, the supply will go up/down **very little** with a change in price.
- Ex. Cars (to increase production, need to build a new factory, hire 100s of workers, etc.)
- Apples (to increase production, would have to plant more trees, taking years to grow and produce apples)



Change in Supply

- A supply curve is only accurate as long as there are no changes other than price that could affect a consumer's decision
- When factors other than price (non-price factors) affect the supply curve, the entire curve shifts to the left or to the right
- These factors will cause the supply curve to shift to the **left (less quantity supplied)** or to the **right (more quantity supplied)**
- There are 3 non-price factors that influence supply



Non-Price Factors that effect Supply



1

CHANGE IN COST OF PRODUCTION

- If a producer can find a cheaper way to produce an item, it's supply curve will change
- Ex. Humans writing books- long and expensive
- Computers print books faster and cheaper
- RESULT: More books offered at a lower price

2

PRICE OF RESOURCES CHANGE

- Human Resources: pay worker more, changes supply (produce less pizzas).
- Natural Resources: price of cheese increases, produce less pizzas
- Capital Resources: Rent increases, produce less pizzas

3

MAXIMIZE PROFIT

- If a producer makes more profit selling one product instead of another, the supply for both products changes.
- Ex. Price of DVD's and VCR tapes remain the same, but I can make more profit selling DVD's
- RESULT: Reduce the supply of VCR tapes and increase supply of DVD's.



How does Scarcity of an item affect the supply?

- If an item is scarce, then there is little to no supply
- Ex. Gas, Petrol (even if price goes up, it is difficult for oil companies to get more gasoline to consumers)





How does a Boycott affect supply?

- Supply for a boycotted item increases because nobody is buying it.
- Ex. During the Montgomery bus boycott, there was an increased supply of bus seats because nobody was riding the bus.





How does the War affect supply?

- Increase in supply of war-related materials. (The military will pay more for metal, cloth, gas masks, etc. so businesses increase their supply)
- Increased supply of news
- Decreased supply of certain items.
Ex. Petrol, Oil etc...





THANK YOU