

1	Demand : Meaning :*
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In the ordinary sense, the term 'demand' is taken to mean 'desire' for a thing. But, in economics, mere desire for a thing does not constitute 'demand'. A person, for an example, may desire to have a TV set or a steel cabinet but if he does not have the necessary resources (i.e. money) to buy it, his desire will not be considered as 'demand' in economics. When, however, the desire for a thing is backed by willingness and ability to pay for it, it becomes 'demand' or 'effective demand'. In other words, 'demand' in economics implies three things :

- (a) Desire for the commodity;
- (b) Willingness to pay its price; and
- (c) Ability to pay, i.e. the person should have the necessary and adequate purchasing power (money).

Demand for any commodity, therefore, may be defined as the desire for that commodity backed by the willingness and ability to pay for it.

Demand is always at a Price : It should also be remembered that the demand for any commodity has no meaning unless it is stated in terms of price. A person, for an example, cannot say how much of a commodity he would demand unless he knows the price at which it is offered for sale. He would, for an example, demand a particular quantity at a particular price. If, however, there is a change in price, there will be a change in his demand too. That is to say, a person's demand for the commodity is different at different prices. Generally speaking, he will buy more at a lower price and less at a higher price. Therefore, *to speak of demand without reference to price is meaningless. Similarly, the demand is always per unit of time-per day, per week, per month, per year etc.*

In short, demand means the quantity demanded at a given price and per unit of time. The term, therefore, is not an absolute term; it is a relative term-relative to price and time.

2	Demand Schedule :
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Demand schedule is a tabular statement showing quantities of a commodity demanded at different prices. It represents functional relationship between price and amount demanded. Demand schedules are of two types :

Demand Analysis

- (i) Individual demand schedule, and
- (ii) Market demand schedule

(i) Individual Demand Schedule : Individual demand schedule shows the quantities of a commodity that a person will buy at different prices; in other words, it shows the relationship between price and the quantity demanded by an individual. For an example, if we study the different quantities of an article which an individual demands at different prices, we will get an individual demand schedule.

Individual Demand Schedule

Price	Quantity Demanded by an Individual
Rs. 5	5 units
Rs. 4	7 units
Rs. 3	10 units
Rs. 2	13 units
Rs. 1	15 units

On this basis, we can draw individual demand curve as follows :

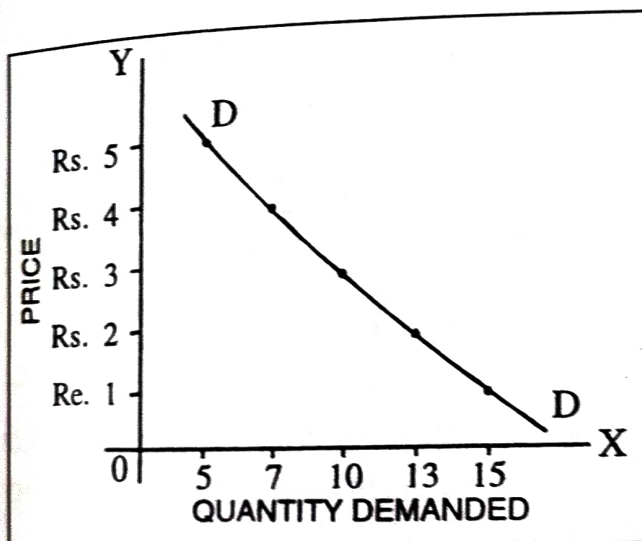


Fig. : 1

The individual demand curve slopes down from left to right indicating that lower the price, greater is the quantity demanded.

(ii) Market Demand Schedule : In any market, there is a large number of buyers each one having his own demand schedule. The sum of these demand schedules constitutes market demand schedule. Thus, market demand schedule can be defined as a schedule indicating various amounts of a commodity that would be purchased by all the buyers at various prices during a period of time.

demand increases with the price of a

4 Demand Function :*

In mathematical parlance, a function is a symbolic statement of relationship between the dependent and the independent variables. Demand function states the relationship between the demand for a product (that is, the dependent variable) and its determinants (that is, the independent variables.) In other words, a demand function states the functional relationship between demand for a product and the various factors or variables affecting.

* What is demand function ?

The relationship between the demand for a product and its various determinants is often expressed mathematically in terms of demand function as follows :

$$D_x = f(P_x, I, P_s, P_c, T, U \dots\dots\dots)$$

Here;

D_x = demand for product-x

f = function of :

P_x = price of the product

I = income of the consumer

P_s = price of substitutes

P_c = price of complementary goods

T = tastes and preferences of consumers

U = other factors affecting the demand for product x.

It may be noted here that the form of demand function depends on the nature of demand-price relationship. The two most common forms of demand-price relationship are linear and non-linear. Accordingly, the demand function may assume a linear or a non-linear form.

(a) Linear Demand Function :

A linear demand function is that where the slope of the demand curve remains constant throughout its length, Thus,

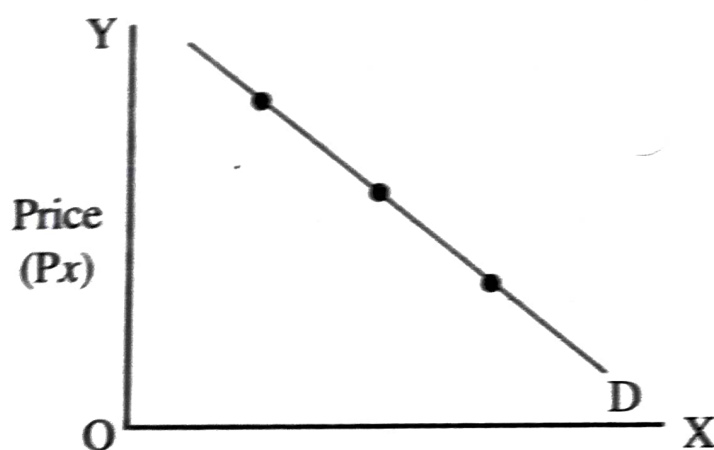


Fig. : 3
Quantity Demanded = (D_x)

(b) Non-linear Demand Function :

A demand function is said to be non-linear when the slope of the demand curve changes all along the curve. Non-linear demand function yields a demand curve instead of a demand line. Thus,

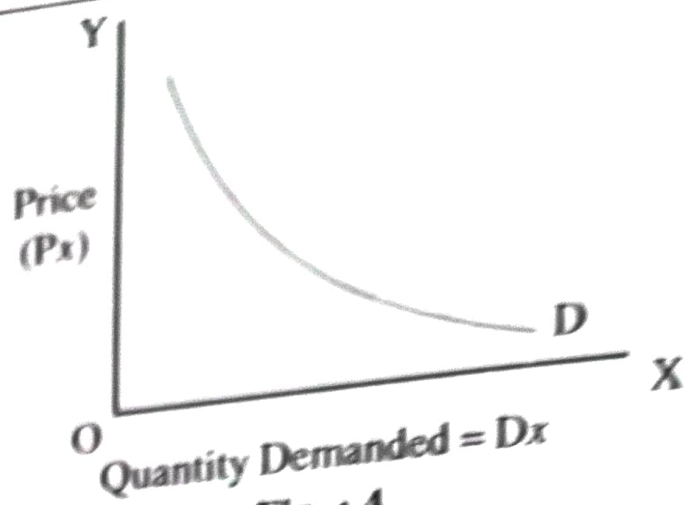


Fig. : 4

5 Law of Demand :

(i) Statement of the Law : The law of demand states that, *other things being equal, the amount of a commodity which people demand increases with every fall in the price of the commodity and decreases with every rise in it.* In other words, the demand for a commodity varies inversely with its price.

The law can be illustrated with the help of a schedule and a diagram as follows :

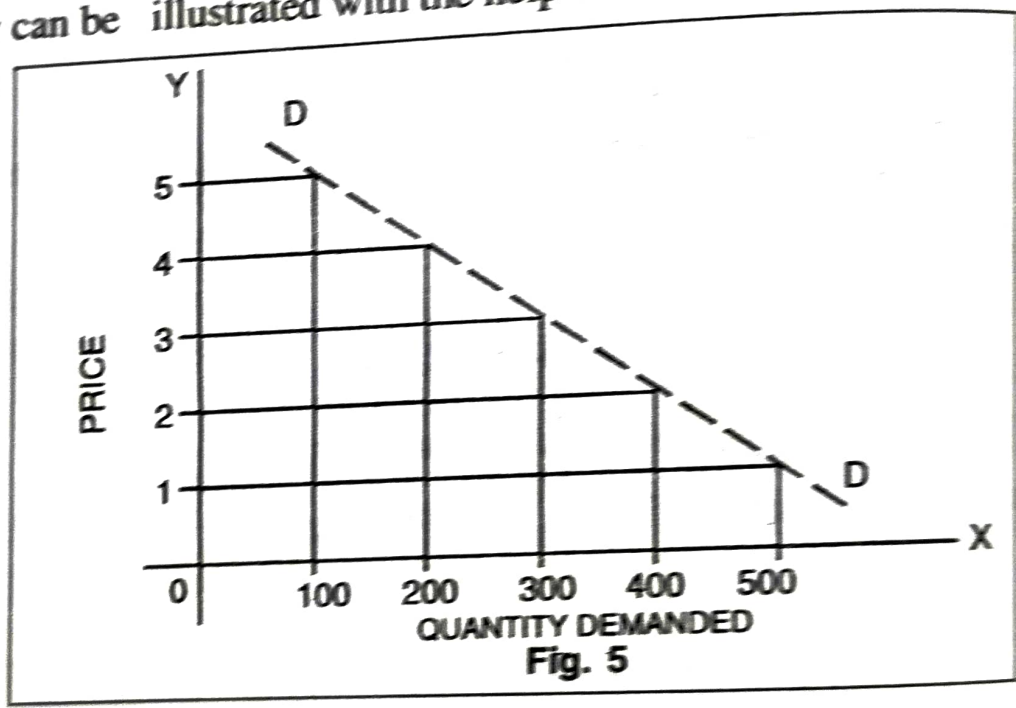


Fig. 5

Price	Quantity Demanded
Rs. 5	100 units
Rs. 4	200 units
Rs. 3	300 units
Rs. 2	400 units
Re. 1	500 units

* Explain law of demand with diagram

Along OX we have measured the quantity demanded and along OY the price. With every fall in the price of the commodity, the quantity demanded increases. DD is the demand curve.

Explanation of the Law of Demand : There are two reason which explain why price and demand for a commodity are inversely related. They are as follows :

(i) There are all types of consumers in the market for a commodity some are rich and some are poor. Some like the commodity more than others. When price of the commodity is high, people with low income do not purchase because it is beyond their reach, and people with less liking also keep away from the commodity because they do not consider it worth purchasing at this price. When, however, price goes down, many of the persons with low income find that they can now afford to purchase it. Hence, they begin to purchase the commodity. And people with less liking also feel that now the commodity is worth purchasing. Therefore, they also buy it. Thus, when price of a commodity falls, total number of consumers in the market increases and consequently quantity demanded increases.

(ii) The second reason for the inverse relationship between price and demand for a commodity is more subtle. When price of a commodity falls, its existing buyers are also tempted to purchase and consume more than before. The behaviour of existing consumers is explained by the economists in terms of substitution effect and income effect.

(a) Substitution Effect : When the price of one commodity falls and that of other commodities remain the same, this commodity becomes more attractive to the consumer in relation to others, and therefore, he will tend to substitute it for other commodities. In other words, the fall in the price of a commodity makes it more price attractive as against its substitutes whose prices have not fallen. This, therefore, induces the consumer to substitute more of this commodity for other commodities. Conversely, a rise in the price of a commodity while that of others remaining constant, will make it relatively price-unattractive and consumers, therefore, will demand less of it. For an example, if the price of oranges falls and that of apples remains the same, the consumer will substitute more of oranges for apples. i.e. with a fall in the price of oranges, its demand increases. This is known as the 'substitution effect'.

(b) Income Effect : Besides the substitution effect, there is also the income effect. A fall in the price of a commodity means that a consumer can purchase the same quantity of the commodity by spending less amount of money, or more quantity by the same amount. In either case, he is 'better-off' or 'well-off'. In other words, a fall in price implies an increase in the purchasing power of money which means an increase in the real income of the consumer. The rise in demand due to the increase in the real income of the consumer is known as 'income effect.' For example, if the price of oranges falls from Rs. 50 per dozen to Rs. 40 per dozen, there is an increase in the real income of the consumer to the extent of Rs. 10. He therefore, becomes 'better-off' by ten rupees or we can say that his real income has increased by ten rupees and as such he can afford to buy more oranges.

6. Determinants of Demand :*

Demand for a commodity is influenced by many factors. These factors are known as determinants of demand, because they determine the quantity demanded of a commodity. It is also known as demand function. The main determinants of demand are as follows :

(1) Price : Basically, the amount of a commodity demanded per unit of time depends upon the price charged for it. Usually higher the price, the lower will be the quantity demanded and vice versa.

(2) Income : The household's demand for a commodity is influenced by the size of its income. In most cases, larger the income, the greater will be the quantity demanded. At present, demand for goods does not contract in India inspite of price rise, because money incomes are increasing rapidly, and the effect of income is more powerful than that of price rise.

(3) Tastes and Preferences : Tastes and preferences of the people can have a powerful influence on the level of demand for a commodity. If a particular commodity comes into fashion, it will be demanded in large quantity even if its price is high. Conversely, if a commodity goes out of fashion, its demand will decline in spite of fall in price.

(4) Prices of Related Commodities : Demand for a commodity X is influenced by the level of price of some other related commodity Y or so. Take the example of substitute goods. Tea and coffee are substitute goods. If price of tea falls, some people will substitute tea for coffee. Thus, demand for coffee declines though its price is constant. Now, take an example of

complementary goods. The fountain pen and ink are complementary goods. If price of fountain pen falls, more fountain pen will be bought. At the same time demand for ink will also increase, because, without ink, fountain pen is useless. Thus, when price of fountain pen falls, demand for ink increases, though price of ink itself is constant or may even be slightly rising.

(5) Size of Population : Total demand for a commodity depends upon the number of its consumers. The larger the number of consumers, the larger will be the demand for that commodity. The number of consumers for a commodity depends upon the size of population - a demographic factor. For instance, the number of consumers of wheat will increase with the growth of population in the country. Hence demand for wheat will increase.

(6) Expectations about Future Price : Demand for a commodity will depend on people's expectation about its future price also. Demand for wheat will increase in spite of its high price at present, if people expect a further increase in price. Conversely, demand for wheat will decrease in spite of its low price at present, if people expect a rather fall in price.

(7) Income Distribution : The pattern of demand for goods depends on the pattern of income distribution. If there is an increase in income inequality due to the transfer of incomes from the poor to the rich, the pattern of demand will change in favour of luxuries. If income inequality is reduced, and the purchasing power shifts from the rich to the poor overall demand will rise, as the propensity to consume of the poor is more than that of the rich.

(8) Advertisement and Publicity : An effective advertisement and publicity campaign can bring about a change in preferences of the people and causes alternations in demand for the products. At present, demand for electronics, cosmetics and toilet products is determined mainly by advertisement and publicity by the producers. **Chamberlin** has analysed in detail the effects of selling costs on demand in his famous book 'Economics of Monopolistic Competition'. The main points of his analysis are as follows :

- (i) When price of the product, its quality and prices of related goods etc. are constant, there is a direct relationship between selling cost and sales. That is, sales increase with selling costs.
- (ii) In the beginning sales increase more rapidly than selling costs. But after a point, sales increase at a slower rate than selling costs.

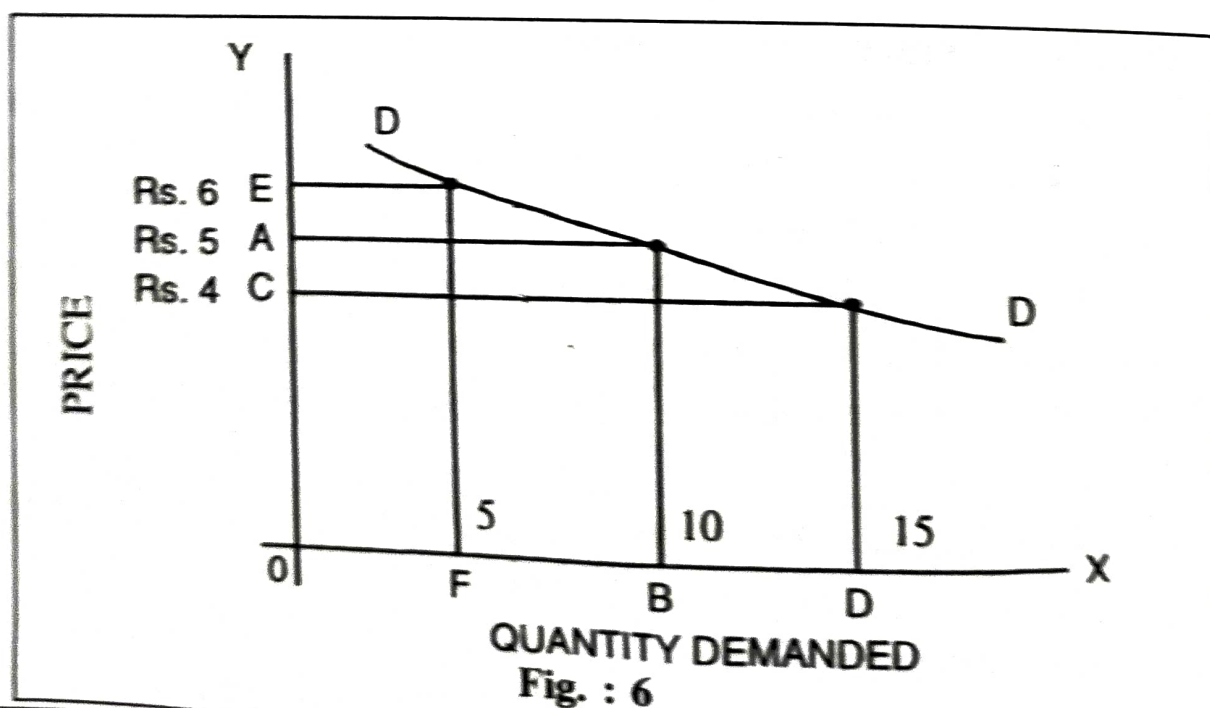
(9) **Change in Taxation :** Taxes affect demand for goods. Indirect taxes such as excise duties and import duties are added to the prices and therefore demand tends to contract. Direct taxes such as income-tax and wealth-tax reduce disposable income of the taxpayers and cause demand to decline.

(10) **Change in General Price Level :** Inflation and deflation also affect demand for products in the economy. Inflation reduces real income of the people and brings about a change in relative prices also. Deflation on the other hand raises real incomes of the people. Deflation also causes relative prices to change. All these changes affect the pattern of demand for a large number of goods in the economy.

7 Change in Demand :

It would be interesting here to note the difference between extension and contraction of demand on the one hand and increase and decrease in demand on the other. Increase and decrease in demand indicate change in demand.

(1) **Extension and Contraction of Demand :** A change in the quantity of an article demanded as a result of a change in its price is known as extension or contraction of demand. In other words, when the quantity demanded increases due to a fall in price, it is called extension of demand and when quantity demanded decreases due to a rise in price, it is known as contraction of demand. In short, extension and contraction of demand are always due to change in price.



* What is change in demand ? Discuss.

Demand Analysis

Price	Quantity Demanded	
Rs. 5	10 units	
Rs. 4	15 units →	Extension of Demand
Rs. 6	5 units →	Contraction of Demand

Along OX we have measured quantity demanded and along OY we have measured price. When price is OA, quantity demanded is OB; when price falls from OA to OC, demand expands from OB to OD. This is known as 'Extension of Demand'. Similarly, when price rises from OA to OE, demand falls from OB to OF. This is known as 'Contraction of Demand.'

(2) Increase and Decrease in Demand : A change in the quantity of an article demanded not due to a change in its price but due to change in other factors like income, tastes, preferences, habits, fashions, population etc. is known as 'Increase or Decrease in Demand.' In other words, *increase in demand means that at the same price, consumers purchase more units of an article than before.* This may be due to a rise in income or change in taste or liking for this article. Here, there will be a shift in the demand curve upwards. On the other hand, *decrease in demand means that at the same price, consumers purchase less units of an article than before.* This may be due to a fall in income or due to a change in taste, liking or fashion. Here there will be a shift in the demand curve downwards.

Price	Quantity Demanded	
Rs. 5	10	
Rs. 5	14 →	Increase in Demand
Rs. 5	6 →	Decrease in Demand

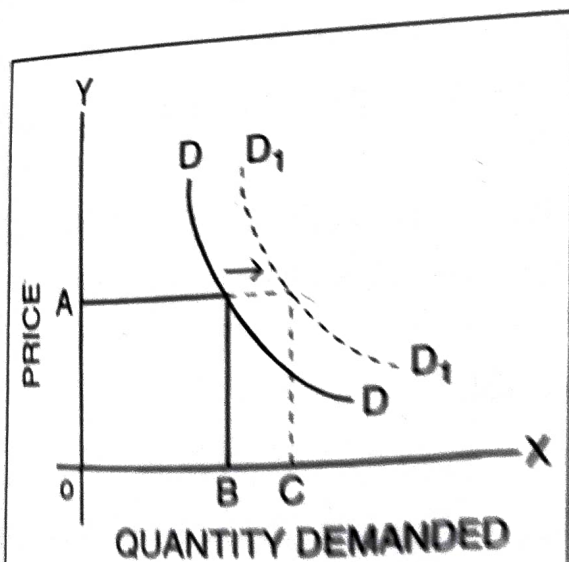


Fig. : 7

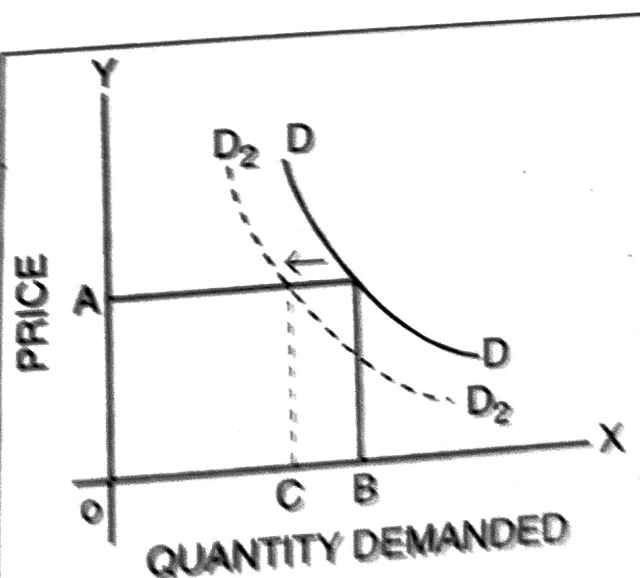


Fig. : 8

been a downward shift in

8 Demand Analysis :*

In Business Economics, demand analysis refers to the systematic study of basic determinants of the demand for a product. It is an attempt to identify and measure the relative importance of each and every determinant of demand. It therefore includes the study of such issues as demand schedule, nature of price-demand relationship, price elasticity of demand, other elasticities of demand and demand forecasting etc.

In Economic theory, the main objective of demand analysis is to explain the allocation of scarce resources among different industries through price mechanism. Therefore it concentrates on the inverse relation between price and market demand. It explains the inverse relationship in terms of the behaviour of an individual consumer. **Marshall** explains it with the help of marginal utility analysis, while **Hicks** explains it with the help of indifference curve analysis. **Samuelson** explains it with the help of revealed preference analysis.

In Business Economics however, the scope and objects of demand analysis are quite different. The main objectives of demand analysis are as follows :

- (i) To make forecast of future demand
- (ii) To deliberately change market demand for the product
- (iii) To evaluate the performance of salesmen and to determine the sales quotas among them

* How is demand function useful for taking managerial decisions ?

(April. 2003)

- (iv) To get an idea of the competitive strength of the firm as compared to that of the rival firms
- (v) To use it in legal suits relating taxation, claims for compensation etc.

Demand analysis serves following purposes :

- (i) It provides guidelines for demand manipulation through advertising.
- (ii) It provides guidelines for product improvement and production planning.
- (iii) It serves as a guide in formulating price policy.
- (iv) It indicates the market share of the firm, its competitive position and scope for business expansion.
- (v) It is an important technique for sales forecasting.

9 Demand Determinants for Consumer's Non-durables :

The factors which influence the demand for non-durable consumer goods are as follows :

(i) **Price** : Price is the most important determinant of demand for the consumer non-durable goods, e.g. milk. At a higher price less of it is demanded and vice versa. However, the extent of change in demand depends upon the elasticity of demand for the product concerned.

(ii) **Prices of related goods** : Prices of related goods also influence the demand for the product concerned. The product may be a substitute, e.g. coffee is a substitute for tea. The fall in the price of coffee by increasing the demand for coffee leads to a cut in the demand for tea. The product may be a complement which is jointly demanded, e.g. car and petrol. A fall in the price of cars by increasing the demand for cars will increase the demand for petrol also.

(iii) **Spendable or disposable income** : Spendable income is income available for spending. It is what remains with the person after subtracting tax, savings and other deductions from his salary. If it is more, demand is likely to rise and vice versa. Changes at a low level of disposable income influence mainly the demand for necessities of life like food, clothing etc. while changes at a higher level of disposable income affect more the demand for semi-luxuries and luxury goods.

(iv) Population : It is not only the size but also the composition of population which has an impact on the demand for consumer non-durables. The size of population directly affects the demand for the product, e.g. the demand for consumer perishable goods like edible oil, sugar, wheat, rice, kerosene etc. has increased in India after independence, due mainly to the rise in the size of her population.

Besides the size of population, the composition of population, e.g. male-female ratio (sex-ratio), age composition (children, adult and old people), rural-urban population etc. also influence demand for different consumer goods. If there is a relatively larger increase in child population, demand for goods used by them would rise, e.g. baby food, talcum powder, milk etc. If old people (senior citizen's) population rises relatively more, demand for tonics, dentures, walking sticks etc. would rise faster.

10 | Determinants of Demand for Consumers' Durables :

The factors affecting the demand for consumers' durables are quite different. Such goods are refrigerator, colour TV, VCR, Video Camera, Washing Machine, Acquaguard, CD (compact disc) Player etc. They can be used over and over again for a long period.

The demand for such goods is composed of replacement demand (old owner demand) and new owner demand. The new owner demand is comparatively very small. The main demand comes from replacement of such goods after their life is over. The main determinants of demand for such goods are the following :

(i) Income : The most important determinant of demand for consumer durables is the income of the households. As these goods are expensive, only households with high income can afford them.

(ii) Family profile : Consumer durables are collectively used by the family as a unit. Hence family size, number of members in the family, life style; working members in the family, status awareness etc. have a great influence on the demand for time-saving and prestige symbol goods.

(iii) Availability of service facilities : Households with modest means have to continue using consumers durables such as geyser, refrigerator, cooker, washing machine, TV etc. even beyond their normal life expectancy by repairing them. However, this is possible only if necessary spareparts are easily available and service and repair facilities also exist.

(iv) Technological advances : The demand for consumer durables continuously keep on changing due to the introduction of new goods, new

labour saving devices and status symbols. In future science will place at the feet of mankind more exciting and thrilling products.

(v) **Status value** : Certain goods are purchased by especially rich people out of their status value, e.g. AC, automatic washing machines. Status considerations play very important role in affecting the demand for such prestigious goods.

(vi) **Availability of supportive facilities** : The use of certain goods - necessitate the regular supply of related or supportive facilities, e.g. electricity for stereo, TV refrigerator.

(vii) **Credit and instalment payment facilities** : Easy and cheap credit facilities by commercial banks and finance companies boost the demand for durables like scooters, cars etc.

It is necessary to note that it is relatively easy to forecast the demand for consumer non-durables than consumer durables. Determinants of consumer durables are many and complex.

11 **Determinants of Demand for Producers' Goods :**

The demand for producers' goods like machinery, tools, equipments is influenced by the factors stated below :

(i) **Use of production capacity** : The utilisation of installed capacity is an important determinant for the demand for producers' goods. If the use of installed production capacity increases, the demand for tools, equipment machinery etc will expand.

(ii) **Growth potential** : If the growth potential of the products or a particular product in near future is substantial, it will lead to considerable increase in the demand for machines, equipment etc. employed in manufacturing them and vice-versa.

(iii) **Profit expectation** : If firms and companies expect to make bumper profit in producing certain goods, e.g. Colour T.V., Water Purifiers, Vaccum cleaners etc. the demand for producers' goods like machines, tools etc. used in making them will swell. Profit expectations naturally depend upon changes in wages, interest, raw-material charges etc. cost elements and sales forecasts.

12 **Elasticity of Demand : Meaning :**

Elasticity of demand is a measure of the extent of change in demand in response to the change in any one of the demand determinants, viz. price, income etc. Price is the most important demand determinant. The law of demand states a relationship between the change in the price of

1. What is Supply ? :

In the previous chapters, we have discussed, about demand, the law of demand and elasticity of demand. We will now briefly discuss about supply, the law of supply and the elasticity of supply.

In the ordinary sense, the term 'supply' is taken to mean as the 'stock' of a commodity available with the producer. But, in economics, the term 'supply' should be carefully distinguished from the term 'stock'. Stock is the total volume of a commodity which can be brought into the market for sale at a short notice, whereas supply means the quantity which is

actually brought in the market for sale. Of course, in the case of perishable commodities like fruits, vegetables, meat, fish, eggs etc. supply and stock may be regarded as the same, because whatever is in stock must be disposed of. But, in the case of durable commodities it is not so, as a certain quantity of these articles can be held back, if for an example, prices are not favourable. In short, stock is potential supply, while supply refers to that part of the stock of the commodity which is offered for sale in the market at a given price.

In other words, the term 'supply' may be defined as the actual amount of the commodity which is brought to the market for sale at a given price. Supply, in economics, therefore, implies two things :

- (a) Stock of the commodity.
- (b) Willingness to offer a part of the stock for sale in the market at a given price.

(1) Supply is Always at a Price : We have just seen in the discussion of demand that demand is always stated in terms of price. Similarly, the term 'supply' is also stated in terms of price. To speak of supply without reference to price has no meaning. Likewise supply is also stated in relation to unit of time-say per day, per week per month, per year etc. The term 'supply' therefore, is not an absolute term, but a relative term-relative to price and time.

In short, supply means the quantity supplied at a given price per unit of time.

2 Supply Schedule :

Supply schedule is a tabular statement showing the different quantities of a commodity supplied at different prices. It represents a functional relationship between the price and the quantity supplied.

Price of Wheat (per quintal)	Quantity of Wheat Supplied (in quintals)
Rs. 1,000	125 qunatials
Rs. 1,100	150 "
Rs. 1,150	180 "
Rs. 1,200	220 "
Rs. 1,250	250 "

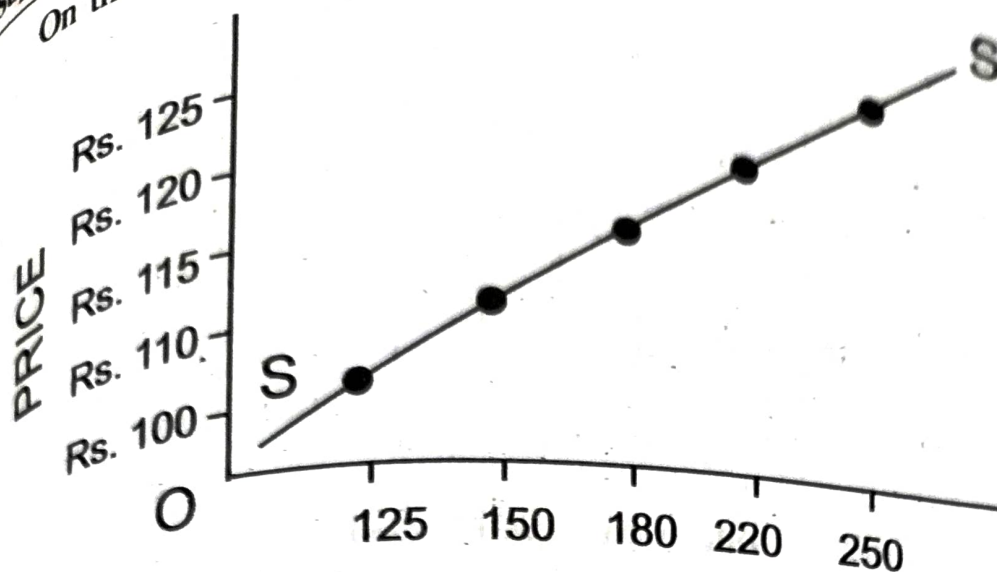


Fig. 1 : Quantity Supplied

3 The Law of Supply :

It will be clear from the study of the supply schedule that, other things remaining the same, more quantity of a commodity is supplied at a higher price and less quantity at a lower price. This is the well-known law of supply which states that, other things being equal, the amount of a commodity supplied increases with every increase in its price and decreases with every fall in its price. In other words, the quantity supplied varies directly with the price, that is to say, other things remaining constant, more quantity of an article is supplied at a higher price and less quantity at a lower price.

Price of Rice (per quintal)	Quantity of Rice Supplied (in quintals)
Rs. 2,000	100 quintals
Rs. 2,100	110 -
Rs. 2,200	125 -
Rs. 2,300	145 -

Diagrammatic Presentation of the Law of Supply :

Along OX we have measured the quantity supplied and along OY the price. When the price is OA, the quantity supplied is OF : with every rise in price form.

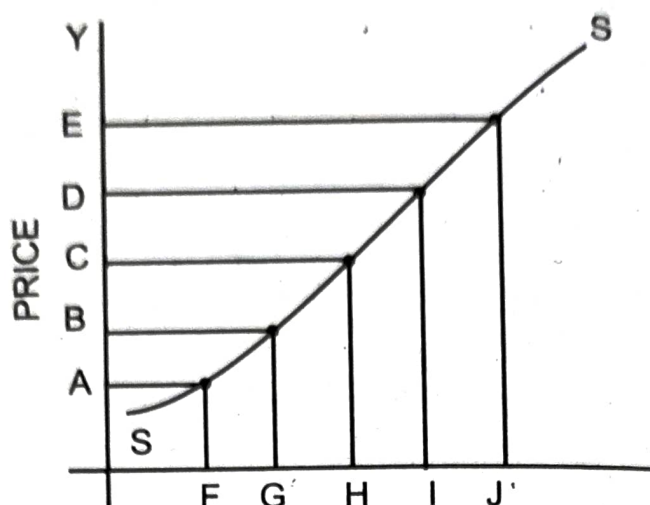


Fig. 2 : Quantity Supplied

OA to OB, OC, OD and OE, the quantity supplied increases from OF to OG, OH, OI and OJ respectively SS is the supply curve.

4. The Rationale of the Law of Supply :

According to the law of supply, other things remaining constant, the quantity of a commodity supplied varies directly with the price. A rise in price leads to an increase in supply and a fall in price results in a decrease in supply. There are two reasons for this phenomenon :

(a) The rise in the price of a commodity leads to an increase in the profit of the producer, because profit, after all, is nothing but a difference between the selling price and the cost price (cost of production) of an article. As a result of a rise in the price of a commodity, the difference between the selling price and the cost price increases leading to an increase in the profit of the producer which gives him an incentive to produce more and offer a larger quantity of it for sale in the market. Thus, a rise in the price of a commodity leads to an increase in its supply.

(b) Conversely, a fall in the price of commodity would mean that the marginal producers are not in a position to cover even their cost of production, they incur losses. The result is that these producers produce less and offer a smaller quantity for sale in the market. Thus, a fall in the price of a commodity leads to a reduction in its supply.

(1) Supply Curve Shapes-Upwards from Left to Right : If we study the shape of the supply curve, we shall find that it slopes upwards from

left to right as contrasted with the demand curve which slopes downwards from left to right. The reason for this is that when price falls, demand increases but supply decreases. In other words, while the demand for a commodity varies inversely with the price, the supply of a commodity varies directly with the price. The direct relationship between the price and the supply of commodities can be illustrated only which slopes upwards from left to right.

5 Assumptions of the Law of Supply :

- The following are the main assumptions of the Law of Supply :
- There should not be a sudden increase or decrease in the production of the commodity due either to natural or other factors.
 - No new substitutes of the commodity should have been invented.
 - The seller should not be in any sudden need of cash.
 - Tax rates should remain the same.

6 Exceptions to the Law of Supply :

The following are the main exceptions in the Law of Supply :

(a) **Anticipation regarding Future Changes in Prices :** If the sellers anticipate that the price of a particular commodity is going to fall in future, then in order to avoid future losses, they would try to sell as much as possible even at the prevailing low level of prices, i.e. in such a case, the fall in price does not lead to a reduction in the supply of a commodity. Conversely, if the businessman expects the prices to rise in future, then with a view to reaping as much profit as possible in future, they would restrict their sales even at the prevailing high level of prices.

(b) **Rare Articles :** The law does not apply in case of such rare articles like ancient coins and stamps, ancient historical statutes, autographs of the departed leaders etc. The supply of such articles is fixed and cannot be increased even if there is a substantial rise in their price.

(c) **'Supply' of Labour :** It has been said that the law does not apply in the case of supply of labour. Up to a point an increase in the price of labour, i.e. increased wages, would result in an increased supply of labour. But after a certain point, they would prefer leisure to extra work. i.e. after a certain point, they would prefer leisure to extra work. i.e.

increase in wages after a certain point does not lead to an increase in the supply of labour. Conversely, a fall in wages would make the labourers work for extra hours to maintain, then existing level of income. Here, therefore, a fall in wages does not lead to a reduction but on the contrary an increase in the supply of labour.

(d) Commodities whose Supply is Fixed in the Short Period : There are certain goods and factors whose supply is practically fixed in the short period and cannot be increased or decreased, although in the long run their supply can be changed, e.g. houses, machines, surgeons, pilots, vegetables, fruits, etc. A rise or fall in the prices of these goods and services will not, in the short period, result in an increase or decrease in their supply. Of course in the long run, their supply can be increased or decreased with a rise or fall in their prices respectively.

7 Determinants of Supply :

The main factors affecting changes in the supply of a commodity are as follows :

(I) Natural Factors : Natural factors like floods, droughts, pests, plant diseases, locusts, storm etc. affect adversely the function of agricultural commodities and consequently their supply, on the other hand favourable factors like timely rains and improved methods of production increase agriculture output and supply. Similarly calamities like earthquakes, wars, fire etc. also by adversely affecting the production result in the decreased supply of goods and commodities.

(II) Cost of Production : Cost of production is another important factor affecting the supply of a commodity. If, for an example, as a result of new inventions and the adoption of improved techniques, the cost of production falls, this would lead to an increase in production resulting in increased supply. On the other hand, if the cost of production rises, say due to an increase in the prices interest raw materials and the prices of the factors of production like rent, wages interest etc. this would have adverse effect on production resulting in fall in the supply of goods and commodities.

(III) Industrial Progress : Industrial progress in a country leads to increased production and consequently increase in the supply of industrial goods. Thus, for an example. rapid advance of science and technology,

inventions and researches, adoption of improved techniques, improvement in labour efficiency—all these, by considerably increasing the industrial production, result in an increased supply of industrial goods.

(IV) Improvement in the Means of Transport and Communication :

Adequate quick and cheap means of transport and communication by facilitating movement of commodities from areas of plenty to areas of scarcity as also amongst the different regions of the country result in increased supplies.

(V) Political Stability :

Political stability in the country, maintenance of law and order, security of life and property etc. create a favourable atmosphere for the industrialists to step up production and start new concerns. This means a rise in production and consequently a rise in the supply as well. On the other hand, political instability, breakdown of law and order, insecurity of life and property create chaotic conditions in the country and discourage not only new investment but also adversely affect the existing production. All this would naturally result in a fall in the supply of goods and commodities.

(VI) Taxes and Subsidies :

An increase in the rates of taxation, say excise duty, may lead to an increase in the cost of production which would adversely affect the output and the supply of a commodity. However, an increase in the import duty, by restricting the supply of foreign goods may encourage domestic production resulting in an increased supplies of those goods. Similarly, subsidies and bounties given by the government to certain industrial units encourage them to rise their production and thus increase the supply.

Extension and Contraction of Supply :

A change in the quantity of a commodity supplied as a result of a change in its price is known as 'Extension or Contraction of Supply'. In other words, when the supply of a commodity increases due to an increase in its price or decreases due to a fall in its price, the phenomenon is known as extension or contraction of supply respectively. In short, extension or contraction of supply is always due to change in price.

Price	Quantity Supplied
Rs. 5	100 units
Rs. 4	80 units Contraction of supply
Rs. 6	125 units Extension of supply

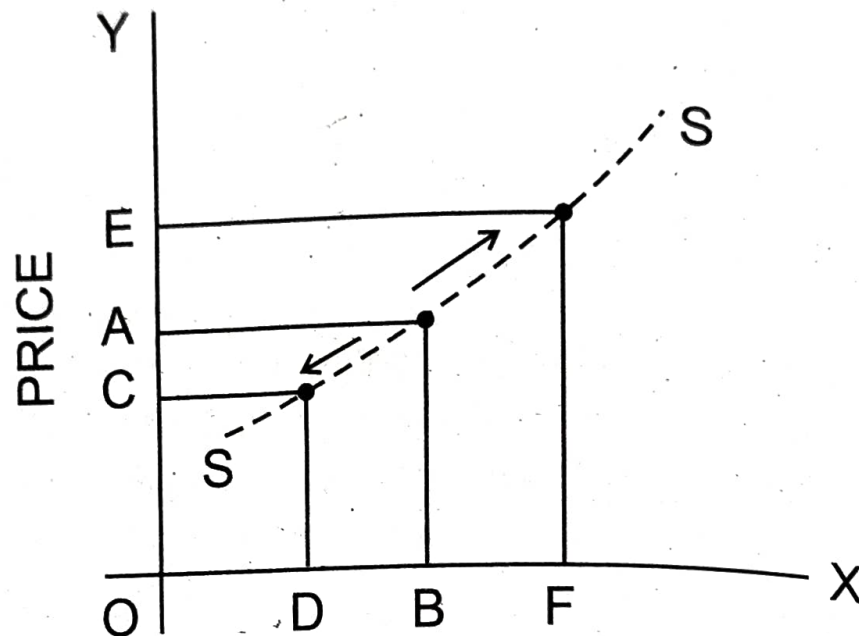


Fig. 3 : Quantity Supplied

At the price OA in Fig. 3, the quantity supplied is OB. When the price rises from OA to OE, the quantity supplied increases from OB to OF. This is known as 'Extension of Supply'. Similarly, when the prices fall from OA to OC, the quantity supplied decreases from OB to OD. This is known as 'Contraction of Supply'.

9 Increase and Decrease in Supply :

A change in the quantity of a commodity supplied not due to a change in prior but due to changes in other factors, which we have already studied is known as an 'Increase or Decrease in Supply'. In other words, increase in supply means that at the same price more quantity of a commodity is offered for sale or the same quantity is offered for sale at a lower price. Here, there will be a shift in the supply curve upwards to the right.

Price	Quantity Supplied
Rs. 5	100 units
Rs. 5	125 units

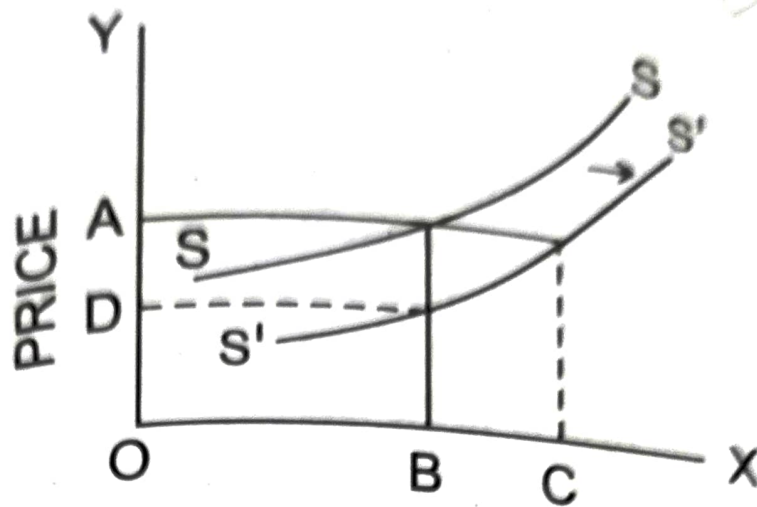


Fig. 4 : Quantity Supplied
(Increase in Supply)

At the original price OA , the quantity supplied is OB . Price remains the same, but the quantity supplied rises from OB to OC .

This is known as 'Increase in Supply'. The new supply curve S' shifts to the right of the original curve S .

Similarly, decrease in supply means that at the same price less quantity is offered for sale. Here, the supply curve shifts downwards to the left.

Price	Quantity Supplied
Rs. 5	100 units
Rs. 5	80 units

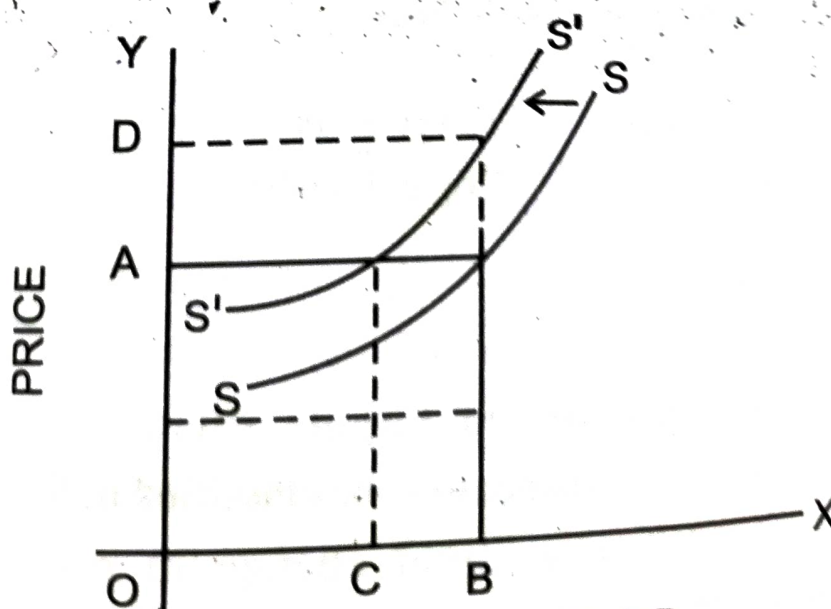


Fig. 5
QUANTITY SUPPLIED
(Increase in Supply) •

At the original price OA, the quantity supplied is OB. Price remains the same but the quantity supplied falls from OB to OC.

This is known as 'Decrease in Supply'. The new supply curve S' shifts downwards to the left of the original curve SS.

In short, it may be said that in the case of extension or contraction of supply, the supply curve remains the same; there is no shifting it. Whatever the movements, they take place on the same supply curve: while on the other hand, increase or decrease in supply implies a shift in the supply curve to the right or to the left.

Short Questions with Answers

(April, 2012)

What is meant by supply ?

(April, 2013)

In Economics, the term supply has a special meaning. It means quantities of a commodity sellers in the market are ready to sell at different prices during a given period of time.

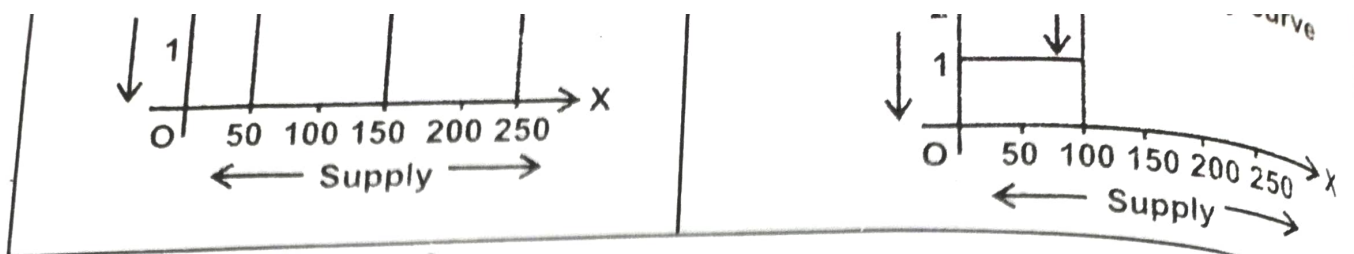
Thus, supply is an relative term. It is relative to price, because during a given period of time, it is different at different prices. Similarly, it is relative to time period, because at a given price, it will be different during different periods of time.

State the exceptions to the law of supply.

(April, 2014)

The law of supply does not hold good even when all its assumptions are fulfilled in the following situations :

- (i) In case of rare articles like picasso's paintings, supply is fixed. not can these be reproduced.
- (ii) If people have determined to earn a fixed annual income by way of interest, they will have to save more at low rate of interest and less at high rate of interest.
- (iii) At very high rates of wages, workers prefer leisure to money. Hence, they will work less if wage rate goes up.



Q. 4 Define : Supply.

Ans. : Supply is that part of stock which is offered for sale by the producer or seller at a particular price during a given period of time.

Q. 5 What is meant by supply schedule ?

Ans. : The supply schedule is a table showing systematic statement of different quantities of supply of a commodity by producer or seller at different prices in the market.

Q. 6 What is supply curve ?

Ans. : In a diagram with quantity on x-axis and price on y-axis, the curve which shows different quantities supplied at prices, other things remaining constant is a supply curve.

Q. 7 State the law of supply.

Ans. : The law of supply states that other factors remaining constant a rise in price would induce expansion of supply and

Short Questions with Answers

Q. 1

What is demand function ?

(Oct., 2006, 2007, April, 2008)

Ans.:

Demand function states the functional relationship between the demand for a product and various factors affecting it.

In terms of equation, it is expressed as follows :

$$D_x = f(P_x, P_r, I, T, U).$$

In which, D_x = Demand for commodity x

f = functional relation.

P_x = Price of x

P_r = Prices of related goods.

I = Consumers' income.