

Ch-4 Theory of Supply

Good Morning Students,

This lesson is for class 10th for the subject of Economics. The topic for today is "law of Supply and Exceptions to law of supply" which is covered in chapter 4 titled "Theory of Supply" of your book of Economics.

This lesson is being submitted to you on 15.7.24.

All the students now please open page number 86 of your book and listen carefully.

Law of Supply:-

Law of Supply states that the relationship between price of the commodity and its supply.

Law of Supply state that

"Other things being equal, the supply of a commodity increases with an increase in its price and decreases with a fall in its price"

Thus, law of supply indicates that there is direct relationship between price and supply of the commodity. Both price and supply of a commodity moves in same direction.

Assumptions of Law of Supply:-

The phrase 'other things being equal' as used in the law of supply indicates its assumptions. The main assumptions of the law are as follows:-

- (1) Price of other related goods should not change.

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- (ii) There is no change in the state of technology.
- (iii) There is no change in the goals of the firms.
- (iv) There is no change in the prices of factors of production.
- (v) There is no expectation of change in price in near future.

Causes of Operation of the Law of Supply are:
Why does supply curve slope upwards or why more is supplied at higher price and less is supplied at low price.

(1) Profit and Loss:- With the rise in price, producers generally increase their production and supply in view of higher profit possibilities and when there is fall in the price, producers will produce and supply less to avoid losses.

(2) Entry and Exit of firms:-

As the price rises, profit also rises. This attracts new firms to enter the market. Therefore supply rises with an increase in price. Similarly when price falls many firms leave the market in order to avoid losses. Therefore, supply falls with a fall in price.

(3) Change in stock:-

With an increase in the price of the commodity, sellers are ready to sell more from their old stock of goods. On the other

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hand, when prices fall, sellers would like to increase their stock to avoid losses

Exceptions to law of Supply/why does supply not rise with an increase in price and fall with a decrease in price. Following are the cases where the law of supply does not apply :-

(1) In case of Agricultural Goods:- The supply of agricultural goods depends more on natural factors such as drought, floods, natural calamities etc and less on their prices. So supply will not rise with a rise in price.

(2) Perishable Goods:-

In case of perishable goods like milk, vegetables, fruits etc. supply does not fall with a fall in price, because sellers cannot store them for long time. So law of supply does not apply.

(3) Goods of Auction:-

This law does not apply in case of goods of auction because their supply is always limited and fixed which cannot be changed at all. Supply does not rise with an increase in price.

(4) Disposal of old stock:-

When sellers want to clear off their old stock of goods, they would like to sell more of goods, by reducing their prices. Supply does not fall with a fall in

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price. Hence law of supply does not apply.

(5) Rare Goods:-

Rare goods like Spectacles of Gandhiji, Artistic goods of high quality etc are limited in supply. So their supply cannot be increased, even if their prices increase. So law of supply does not apply to rare goods.

Students before going further let's take a short break. Write the answers of following questions during the break.

1. Give two exceptions to law of supply.
2. Give two assumptions of law of supply.

Change in Quantity Supplied (Movement along Supply Curve).

When supply changes due to change in price of the commodity other things remaining same, it is known as Change in quantity supplied. In this, there is a movement from one point on the supply curve to another point on same supply curve. It has two types:-

(i) Extension of Supply:-

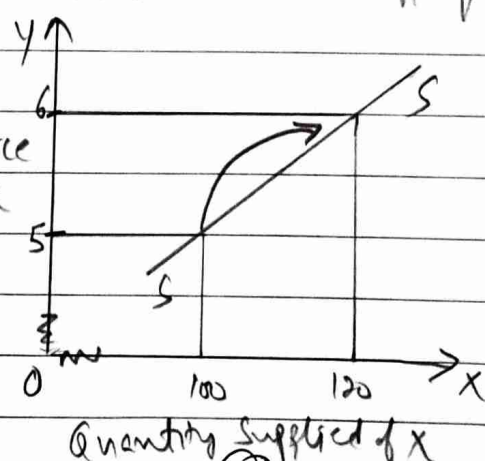
When supply rises, due to rise in price other things remaining same, it is known as

Extension of Supply.

Price Per Unit Quantity Supplied

5
6

100
120



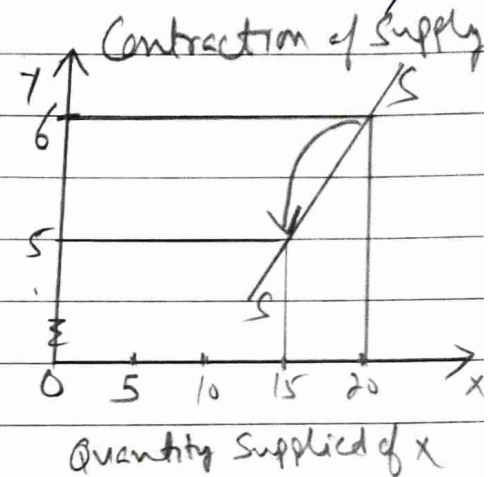
(4)

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(ii) Contraction of Supply:-

When supply of a commodity falls due to fall in the price of the commodity, other things remaining same, it is called Contraction of Supply.

Price Per Unit	Qty Supplied
6	20
5	15



Change in Supply (Movement of Supply Curve)

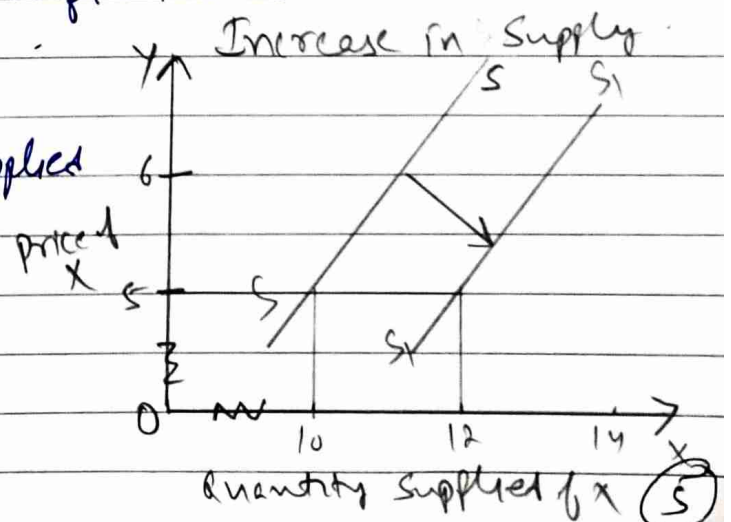
When supply of a commodity changes due to change in other factors (like price of other goods, goal of the firm, state of technology etc.) price of the commodity remaining same, it is known as change in supply. In this supply curve shifts from its place. It has two types:-

(1) Increase in Supply:-

When supply of a commodity increases due to change in other things, price remaining same, it is called Increase in Supply. In this supply curve shifts towards its right side.

Price Per Unit	Qty Supplied
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5	10
5	12



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Causes of Increase in Supply:-

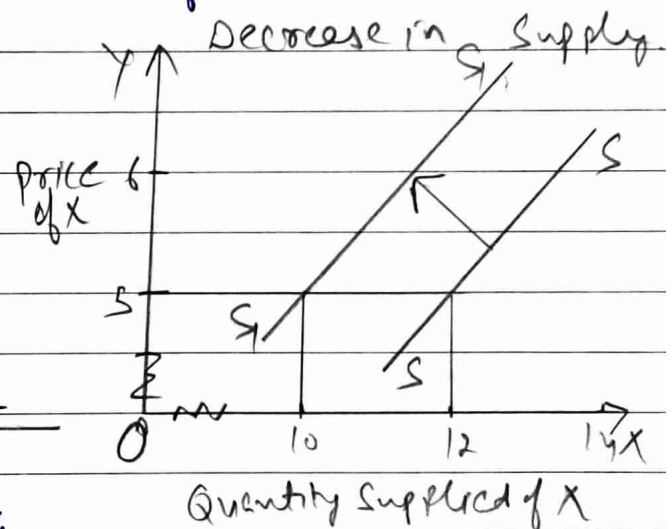
- (i) Fall in price of inputs.
- (ii) Improvement in technology.
- (iii) Fall in price of competitive (substitute) goods.
- (iv) Decrease in Excise Duty.
- (v) Increase in number of firms.
- (vi) Increase in Subsidy.
- (vii) Expectations of fall in price in near future.

(2) Decrease in Supply:-

When supply of commodity falls with a change in other things, price of the commodity remaining same, it is known as Decrease in Supply. In this case, supply curve shifts to its left side.

Price per unit Quantity Supplied

5	12
5	10



Causes of Decrease in Supply:-

- (i) Rise in price of inputs.
- (ii) Rise in price of substitute goods.
- (iii) Increase in Excise duty.
- (iv) Use of old and inferior technology.
- (v) Decrease in number of firms.
- (vi) Decrease in Subsidy.
- (vii) Expectation of rise in price of the commodity in near future.

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DISTINCTION BETWEEN EXPANSION IN SUPPLY AND INCREASE IN SUPPLY

Basis	Expansion in Supply (or Increase in Quantity Supplied)	Increase in Supply
1. Meaning	When a larger quantity is supplied at a higher price, it is called expansion in supply or increase in quantity supplied.	When a larger quantity is supplied at the same price it is called increase in supply.
2. Cause	It is due to rise in commodity's own price.	It results from changes in factors other than commodity's own price, such as fall in factor prices, fall in prices of other goods improvement in technology etc.
3. Effect on supply curve	It leads to upward movement along the supply curve.	It results in rightward shift of supply curve.

DISTINCTION BETWEEN CONTRACTION IN SUPPLY AND DECREASE IN SUPPLY

Basis	Contraction in Supply (or Decrease in Quantity Supplied)	Decrease in Supply
1. Meaning	When a lesser quantity is supplied at a lower price, it is called contraction of supply or decrease in quantity supplied.	When a lesser quantity is supplied at the same price, it is called decrease in supply.
2. Cause	It occurs due to fall in commodity's own price.	It occurs due to change in factors other than commodity's own price, such as increase in factor prices, rise in price of other goods, fall in the number of firms etc.
3. Effect on supply curve	It results in downward movement along the supply curve.	It leads to leftward shift of supply curve.

With this, I am ending my topic here.
Write the answers of following questions in your note-books.

Ques 1. Explain the causes of operation of law of supply.

Ques 2. What is contraction of supply?

Ques 3. Explain the causes of decrease in supply.

Ques 4. Explain the difference between Extension of supply and Increase in supply.