Class 10
Economics
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Theory of Supply

Good Morning Students,

This lesson is for class X for the subject of 'Economics'. The topic for today is Supply and factors effecting supply of a commodity which is covered in chapter 4 titled 'Theory of Supply of your book.

This lesson is being submitted to you on 08.07.2024.

Supply :-
Supply refers to the quantity of a commodity offered for sale at a given price in a given market at a given moment of time.

Features of Supply:
1. Supply is a desired quantity
2. Supply is always related to price.
3. Supply is a flow variable.

Supply Vs Quantity Supplied:
Supply implies the different quantities that the producer or a group of producers is willing to sell at various prices.

Quantity supplied refers to the total amount of commodity which suppliers will offer at a particular market price.

Difference between Stock and Supply

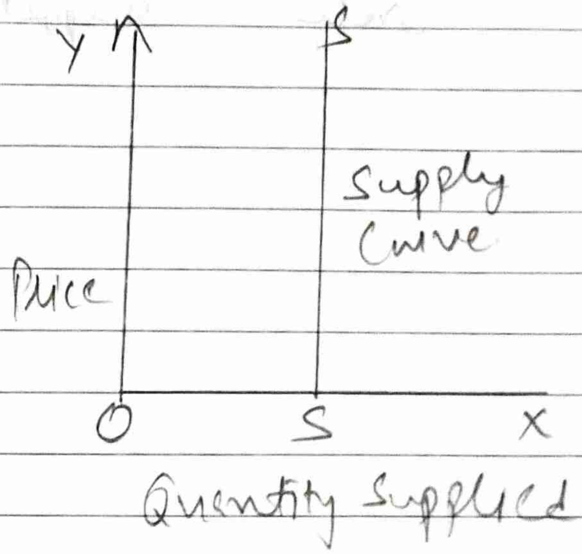
Supply	Stock.
(i) Supply refers to the quantity that the seller is ready to sell at a given price and time	(i) Stock is the total quentity of a commodity that can be brought into the market for sale at a short notice
(ii) Supply is a smaller term. It is part of stock.	(ii) Stock is wider term. It includes supply.

The difference can be better under-stand from the following example.

A farmer has produced 1000 quintal of wheat during a given period. At the prevailing price of ₹ 1500 per quintal he is ready to sell only 300 quintal of wheat.
Here in this example supply is 300 quintal and stock is 1000 quintal.

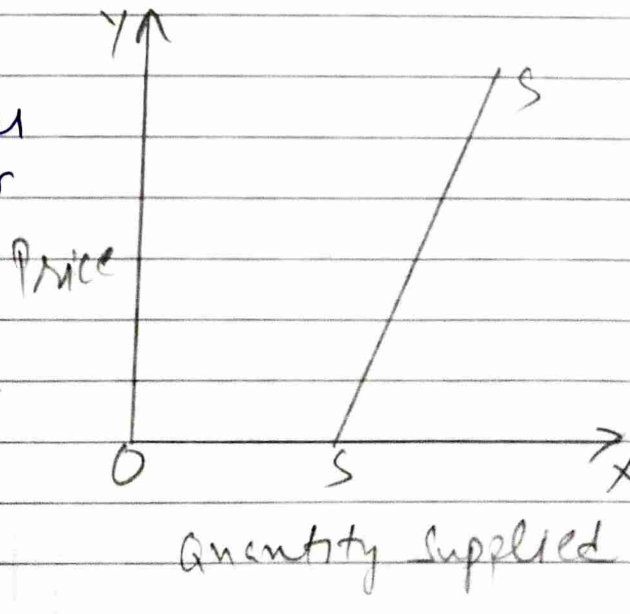
Types of Supply:-
(1) Market Period Supply (Instant supply):-
Market period supply refers to the current supply of a commodity in the market. The time-period is too short to adjust supply. Supply cannot be changed at all due to lack of time even if price has increased.

Supply curve is a straight line parallel to the Y-axis.



For example, a sweets shop has 20kg ladoo and you ask for 50 kg ladoo. But shopkeeper cannot supply more than 20kg ladoo. Because time period is too short that he cannot adjust the supply.

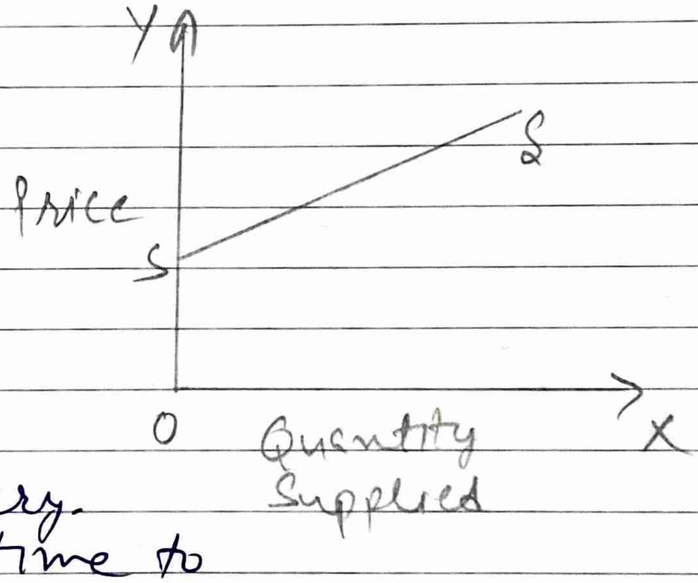
(2) Short Period Supply :- Short period refers to a period in which supply can be adjusted by changing only the quantity of variable factors i.e. labour and ~~capital~~ raw material etc. The existing stock of fixed capital can be intensively used. Working hours of labour can be increased.



If you go to a car company and ask for 100 cars in one month time. The company can produce the cars by using labour in double shifts, more raw

material etc. But time period is not too long that new plant and machinery can be installed.
Supply can be adjusted only up to a certain level.

(3) Long Period Supply :- Long period refers to that time period which is sufficiently long to make changes according to requirement. Due to sufficient time, producers can bring changes in techniques of production. Supply can be changed by all the factors of production.



If a company got an order of supplying 1 lakh car in a period of 2 years. The company can install new plant and machinery. There is enough time to change the supply as per demand of the cars.

Individual Supply :- Individual supply refers to the quantity of a commodity which a firm is willing to provide and offer for sale at a particular price during a specific period of time.

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Market Supply:- Market supply refers to the quantity of commodity that all the firms in the market are willing to produce and offer for sale at a particular price during a specified period of time.

Factors affecting supply of a Commodity.

(1) Price of the Commodity:- Price of the commodity is the most important determinant of its supply. Higher the price, the larger will be the supply. As the price rises, the producers will expect higher profits and will increase the supply. When the price falls, supply also falls.
Therefore there is direct relationship between price and supply of the commodity. Price rises, supply also rises, price falls, supply also falls.

(2) Price of Related Goods:- Supply of a commodity also depends upon the prices of related goods. Related goods may be of two types:-
(a) Substitute Goods:- Substitute goods are those goods which can be used in place of each other. For example washing powder and washing detergent cake. If the price of washing powder increases, the producer of washing detergent cakes will find washing

powder more profitable and reduce the production of detergent cakes and increase the production of washing powder.
Thus with the rise in price of washing powder (substitute), supply of washing detergent cakes (main product) falls and vice versa.

(b) Jointly Produced Goods (i.e. Cotton and Cotton seeds)
If the price of cotton increases, the supply of cotton will increase and consequently, the supply of cotton seeds will also increase.

3. Goal of the firms:- The supply of a commodity also depends upon the goals of the firm. The goal may be profit maximisation or sales maximisation.
If the goal of the firm is to maximise profit, the firm will supply more at high price and less at low price.
If the goal of the firm is to maximise sales, the firm will supply more even at low price.

(4) Price of Factors of Production:-
Fall in price of factors of production will reduce the cost of production, which, in turn will increase the profit of the producer and producer

will increase the supply of the commodity. If, on the other hand, the price of factor of production increases, the cost of production will rise and profits of the producer will fall. So the producer will decrease the supply of the commodity.

(5) State of Technology!- If the producers make use of improved and advanced technology in their process of production, the costs of production will come down and profit margin will increase. Thus supply will increase and vice-versa.

(6) Number of Producers!-
If the number of producer producing a particular commodity increases, supply of the commodity will increase.
If the number of producer producing a particular commodity decreases, the supply of the commodity will decrease.

(7) Future Expectations Regarding Price!-
When a producer expects a rise in price of commodities in future, he will store the goods in present in order to earn higher profits in future. Therefore, supply of commodity will decrease. On the other hand,

if they expects a fall in price in near future they will increase the supply in present to avoid losses

(8) Taxes and Subsidies! If government imposes high taxes, producers will supply less at same price and if government grant subsidies or give tax concessions, the supply will be more.

(9) Natural factors! The supply of ~~agriculture~~ agricultural commodities largely depends upon the natural factors like, rainfall, fertility of the soil, climate etc

Supply Function!- Supply function expresses the functional relationship between the supply of a commodity and its various determinants

Answer the following question!

(1) What is Individual supply?
(2) What is Market Period supply?
(3) Differentiate between supply and stock.
(4) What is supply? Explain various factors affecting supply of a commodity.

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