

**Dr.SNS RAJALAKSHMI COLLEGE OF ARTS AND SCIENCE
(Autonomous)**

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University)
Coimbatore- 49

**DEPARTMENT OF COMMERCE WITH
INFORMATION TECHNOLOGY**

**MANAGERIAL ECONOMICS
Supply and its Determinants**

Dr. R.Arthi,M.Com (IB).,M.Phil., MBA.,M.Com.,Ph.D.,
Assistant Professor,
Department of Commerce with Information Technology

What is Supply?



Definition

Supply refers to the quantity of a commodity that producers are willing and able to offer for sale at a particular price during a given period of time.

Key Components

Willingness: The desire to sell.

Ability: The capacity to produce and sell.

Flow Concept: Measured over a specific time period (e.g., per day, per month).

Supply vs. Stock

These terms are often used interchangeably but have distinct economic meanings.

Stock: The total quantity of a commodity available with the producer at any given point in time (Potential Supply).

Supply: The portion of the stock that is actually offered for sale at a specific price (Actual Market Supply).



The Law of Supply

Direct Relationship

The Law of Supply states that, other things remaining constant (*Ceteris Paribus*), there is a direct relationship between the price of a commodity and the quantity supplied.

Price Rises: Quantity Supplied Increases.

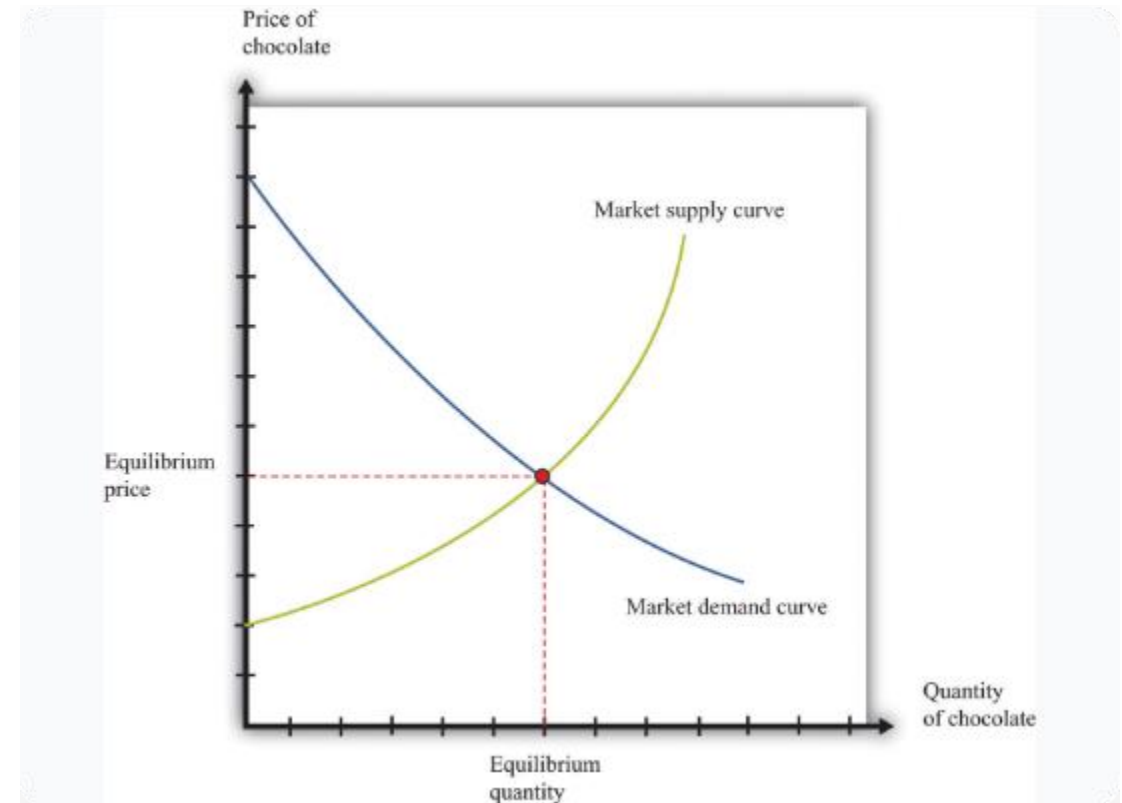
Price Falls: Quantity Supplied Decreases.



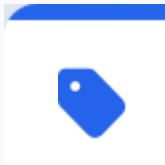
The Supply Curve

The supply curve is the graphical representation of the supply schedule.

- It slopes **upwards from left to right**.
- This positive slope indicates the direct relationship between price and quantity supplied.
- Producers are motivated by profit; higher prices cover higher marginal costs.



Determinants of Supply



Price of Good

The most significant factor determining the quantity supplied.



Input Costs

Cost of raw materials, labor, and other factors of production.



Technology

State of technical knowledge and efficiency in production.

Price of the Commodity

Movement Along the Curve

Changes in the price of the good itself cause a "Change in Quantity Supplied".

↑ **Expansion:** Caused by higher price.

↓ **Contraction:** Caused by lower price.

Profit Motive

Higher prices generally imply higher profit margins, incentivizing producers to increase output.

Note: This assumes all other factors remain constant.

State of Technology

Technological advancements play a crucial role in shifting the supply curve.

Innovation: Reduces the cost of production per unit.

Effect: The supply curve shifts to the right (Increase in Supply).

Obsolescence: Outdated tech may increase costs and reduce supply.



Prices of Factors of Production

Supply is inversely related to the prices of factors of production (inputs).

Inputs include: Land (rent), Labor (wages), Capital (interest), and Raw Materials.

Rise in Costs: Increases production cost, decreases profitability, and shifts supply to the left.

Fall in Costs: Increases profitability and shifts supply to the right.

| Input Price Change | Cost of Production | Supply Effect |
|--------------------|--------------------|-------------------------|
| ↑ Increase | Rises | Decreases (Shift Left) |
| ↓ Decrease | Falls | Increases (Shift Right) |

Government Policy



Taxes

Taxes are viewed as a cost of production.

An increase in taxes (e.g., excise duty, sales tax) raises costs and **decreases supply**.



Subsidies

Subsidies are financial assistance aimed at lowering costs.

An increase in subsidies encourages production and **increases supply**.

Other Key Factors



Natural Factors

Weather affects agricultural supply.



Transport & Infrastructure

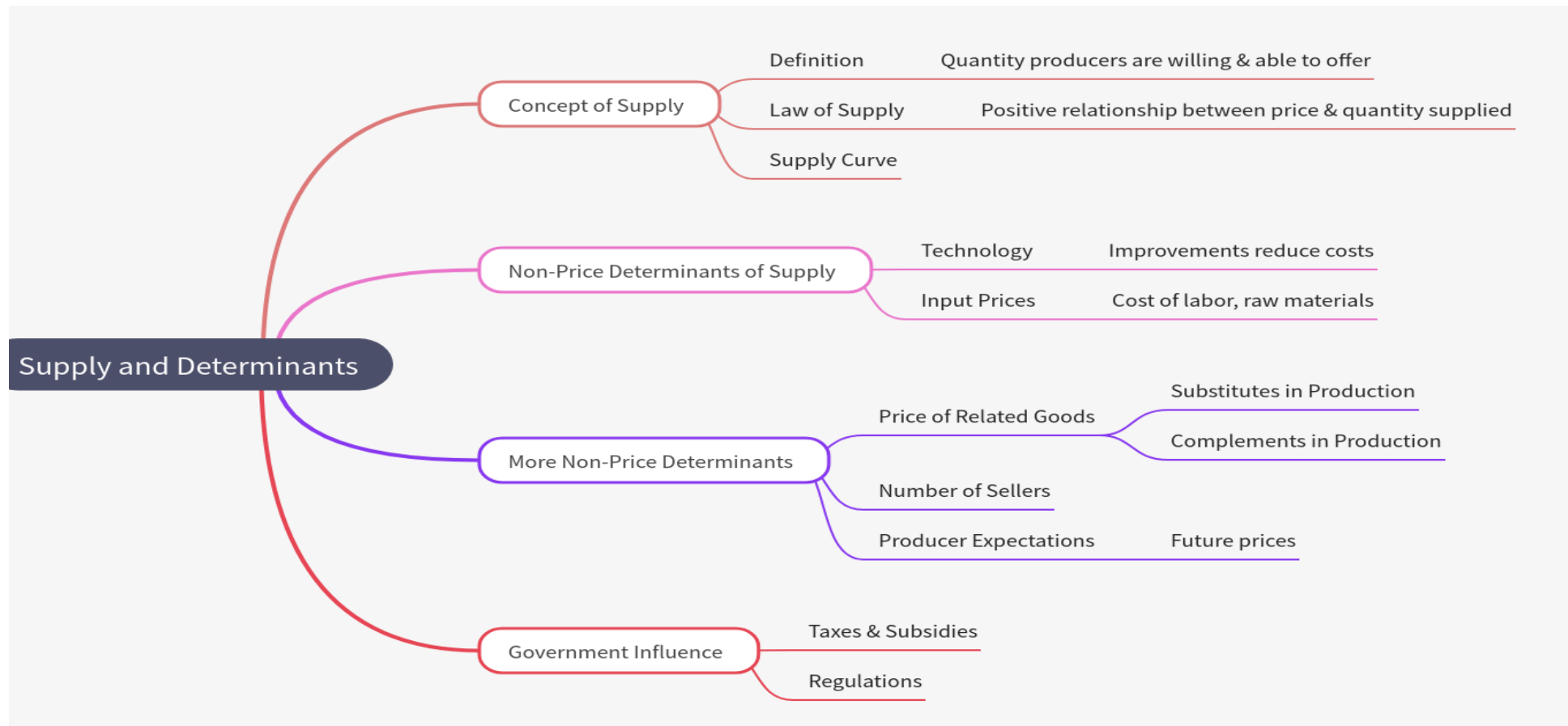
Better logistics increase supply.



Future Expectations

Expected price rises may reduce current supply.

Mind Map



Case Study

Effect of Price on Supply

A farmer sells tomatoes in the local market. When the price is ₹20 per kg, He supplies 50 kg. When the price increases to ₹30 per kg, he supplies 80 kg.

Question

1. What concept of supply is shown in this case?
2. Why did the farmer increase supply when the price increased?

Answer

1. The case shows the **Law of Supply** — supply increases when price increases.
2. The farmer increased supply because **higher price gives higher profit**, motivating him to sell more.