

Unit IV

- Supply- law of supply- elasticity of supply – factors of production –land , labour, capital and organisation – laws of returns – production function- -law of variable proportion - returns to scale.

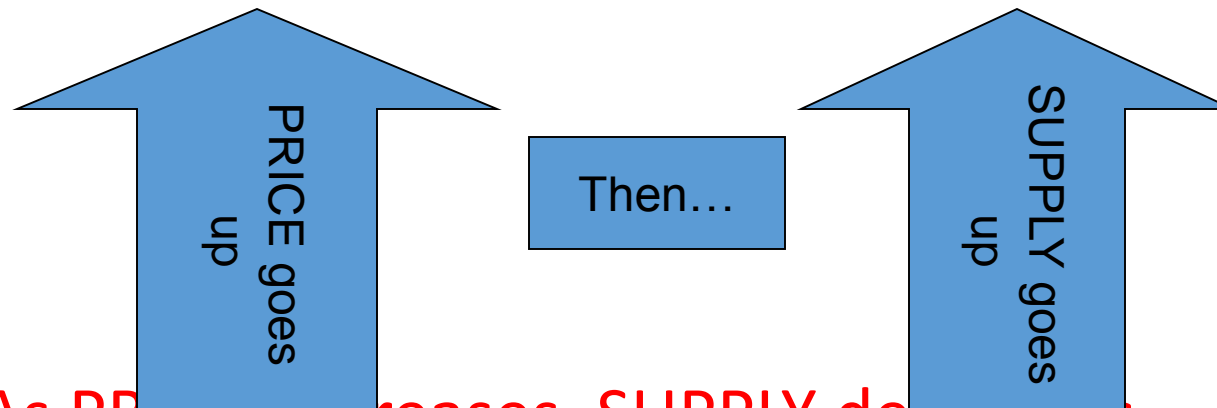
Supply

What Is Supply?

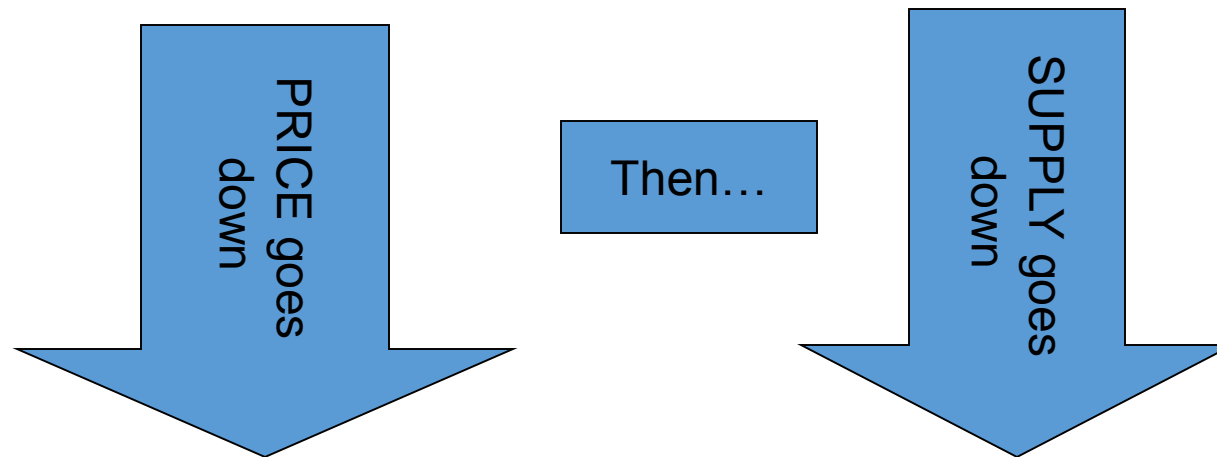
- **Supply** is the willingness and ability of **sellers** to produce and offer to sell different quantities of a good at different prices during a specific time period.
 - **Quantity supplied** is the number of units of a good produced and offered for sale at a specific price.
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Law of Supply

Part 1. As PRICE increases, SUPPLY increases

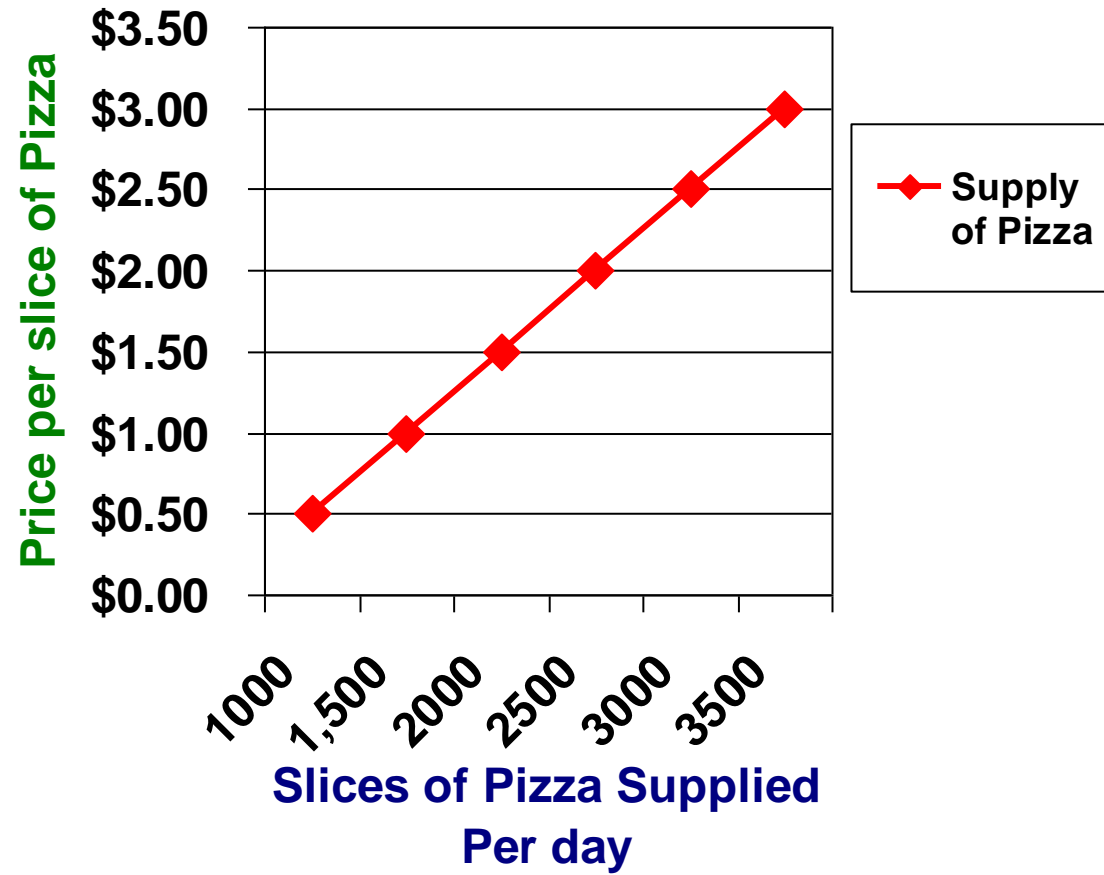


Part 2. As PRICE decreases, SUPPLY decreases



Supply Curves

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



Elasticity of Supply

- Def. **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**

Meaning of production

What is Production?

Production is the process of transformation of inputs into outputs.

Production can be defined as-
Creation of utility or creation of want satisfying goods and services.

THE FACTORS OF PRODUCTION

Factors of production are resources necessary to produce what people want or need.

1. **Land** is the society's limited natural resources—landforms, minerals, vegetation, animal life, and climate.
2. **Capital** is the means by which something is produced such as money, tools, equipment, machinery, and factories.
3. **Labor** is the workers who apply their efforts, abilities, and skills to production.
4. **Entrepreneurs** are risk-takers who combine the land, labor, and capital into new products.

Production is creating goods and services—the result of land, capital, labor, and entrepreneurs.



Characteristics of Land

- ✓ Land is a primary factor of production
- ✓ A gift of nature
- ✓ Limited in supply
- ✓ Fixed in quantity
- ✓ Land is immovable
- ✓ Two different piece of land are not same
- ✓ Land has a derived demand
- ✓ Land is a indestructible factor
- ✓ Land earns rent as a reward for its use

PRODUCTION FUNCTION

Production Function—Explains the relationship between factor input and output in physical terms. Or the term PRODUCTION means transformation of physical “inputs” into physical “outputs”.



Two types of production functions.

- ▶ SHORT RUN
- ▶ LONG RUN



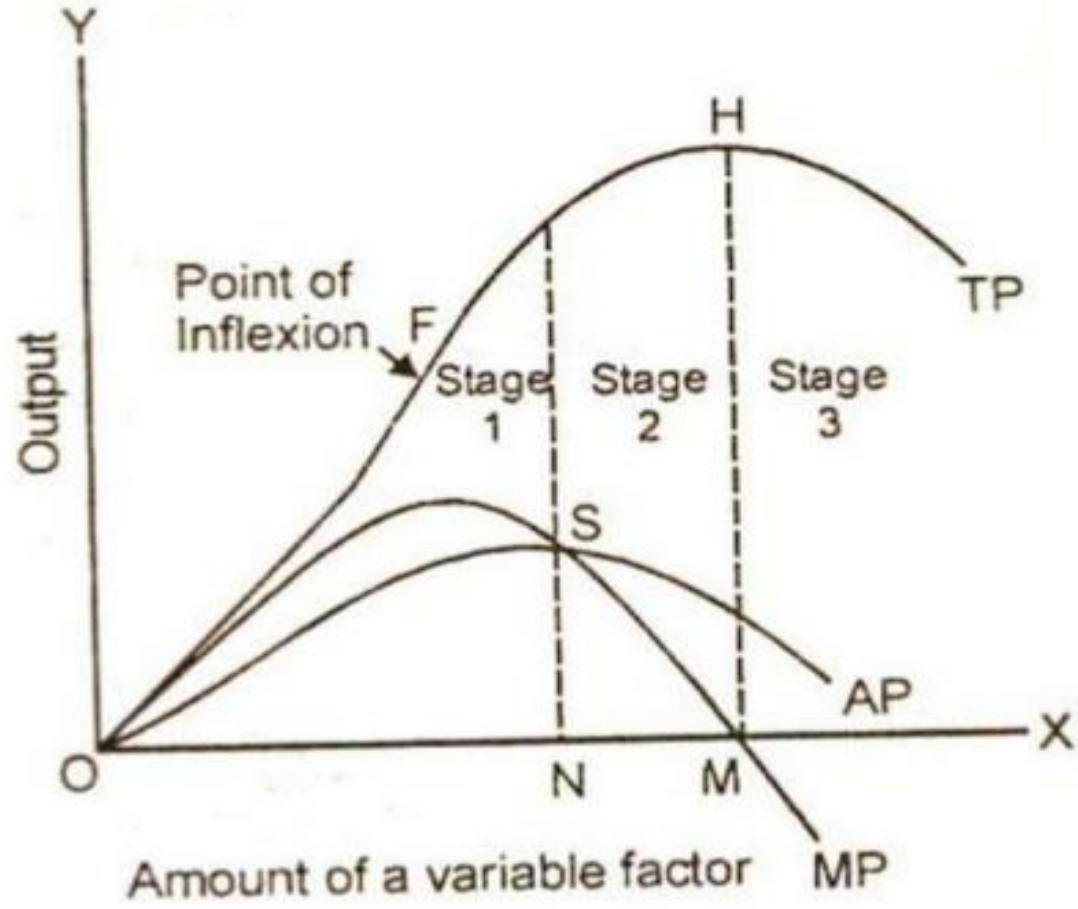
The law of Variable Proportions

In the short-run the level of production can be changed by changing the factor proportions. This law examines the production function with one factor variable, keeping the other factors quantities fixed.



The law explains the short-run production function. When the quantity of one input is varied, keeping other inputs constant, the proportion between factors changes. When the proportion of variable factors increases, the total output does not always increase in the same proportion, but in varying proportion.





Three stages of production.

- ▶ **Stage 1 – THE LAW ON INCREASING RETURNS.**
- ▶ **Stage 2 – THE LAW OF DIMINSHING RETURNS.**
- ▶ **Stage 3 – THE STATE OF NAGATIVE RETURNS**



Law of Returns to Scale

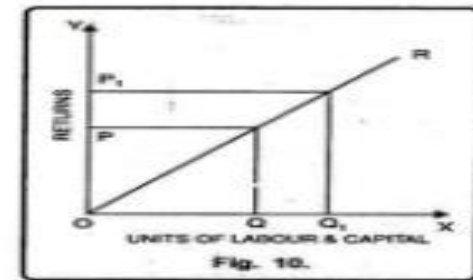
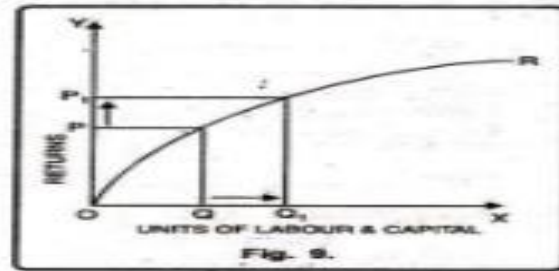
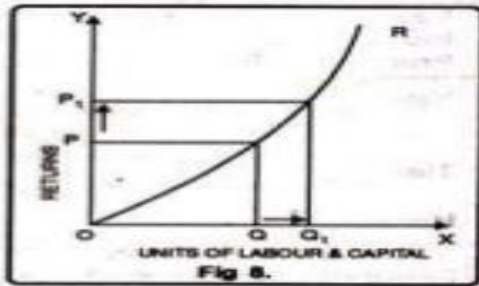
In the long run all factors of production are variable. No factor is fixed. Accordingly, the scale of production can be changed by changing the quantity of all factors of production.

Laws of returns ...

Returns to scale are of the following three types:

- 1. Increasing Returns to scale.
- 2. Constant Returns to Scale
- 3. Diminishing Returns to Scale

Laws of returns to scale diagram....



References

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