UNIT -III

- SUPPLY – MEANING AND LAW OF SUPPLY
- DETERMINANTS OF SUPPLY
- FACTORS AFFECTING SUPPLY
- BUSINESS ENVIRONMENT AND MARKET STRUCTURE

Supply

Supply is defined as the total amount of a given product or service that is available for purchase at a set price.

In economics, supply is the amount of a resource that firms, producers, laborers, providers of financial assets, or other economic agents are willing and able to provide to the marketplace or directly to another agent in the marketplace. Supply can be in currency, time, raw materials, or any other scarce or valuable object that can be provided to another agent.

The law of supply states that, the quantity supplied for a goods rises as the price rises. In other words, the quantity demanded and the price is positively related. The relationship between supply and demand can be illustrated like this:

Supply	Demand	Price
Constant	Rises	Rises
Constant	Falls	Falls
Increases	Constant	Falls
Decreases	Constant	Increases

The Law of Supply

- According to the law of supply, the higher the price, the larger the quantity produced.

TOURISM SUPPLY

THE SUPPLY OF ALL ASSETS, SERVICES AND GOODS TO BE ENJOYED OR BOUGHT BY VISITORS AND OCCASIONED BY THE JOURNEYS OF VISITORS.

TYPES OF TOURISM SUPPLY

TOURISM SUPPLY IS A COMPOSITE PRODUCT INVOLVING TRANSPORT, ACCOMMODATION, CATERING, NATURAL RESOURCES, ENTERTAINMENT, AND OTHER FACILITIES AND SERVICES, SUCH AS SHOPS AND BANKS, TRAVEL AGENTS AND TOUR OPERATORS.

Determinants of Supply

1. Price of the Good/ Service
2. Price of Related Goods
3. Price of the Factors of Production
4. State of Technology
5. Government Policy
6. Other Factors

Price of the Good/ Service

The most obvious one of the determinants of supply is the price of the product/service. With all other parameters being equal, the supply of a product increases if its relative price is higher. The reason is simple. A firm provides goods or services to earn profits and if the prices rise, the profit rises too.

Price of Related Goods

Let’s say that the price of wheat rises. Hence, it becomes more profitable for firms to supply wheat as compared to corn or soya bean. Hence, the supply of wheat will rise, whereas the supply of corn and soya bean will experience a fall.

Price of the Factors of Production

Production of a good involves many costs. If there is a rise in the price of a particular factor of production, then the cost of making goods that use a great deal of that factors experiences a huge increase. The cost of production of goods that use relatively smaller amounts of the said factor increases marginally.

State of Technology

Technological innovations and inventions tend to make it possible to produce better quality and/or quantity of goods using the same resources. Therefore, the state of technology can increase or decrease the supply of certain goods.

Government Policy

Commodity taxes like excise duty, import duties, GST, etc. have a huge impact on the cost of production. These taxes can raise overall costs. Hence, the supply of goods that are impacted by these taxes increases only when the price increases. On the other hand, subsidies reduce the cost of production and usually lead to an increase in supply.

Other Factors

There are many other factors affecting the supply of goods or services like the government's industrial and foreign policies, the goals of the firm, infrastructural facilities, market structure, natural factors etc.

Factors affecting the supply curve

a) A decrease in costs of production.

b) More firms.

c) Investment in capacity.

d) The profitability of alternative products.

e) Related supply

f) Weather.

g) Productivity of workers.

h) Technological improvements.

i) Lower taxes.

j) Government subsidies.

k) Objectives of firms.

FACTORS AFFECTING TOURISM SUPPLY

- ❑ Economic
- ❑ Political
- ❑ Geographical
- ❑Technological
- ❑ Social.

DETERMINANTS OF TOURISM SUPPLY

- **Disposable income**
- **costs, competition**
- **distribution of wealth**
- **supply competition**
- **advertising**
- **vacation entitlements**
- **exchange rates**
- **government regulations and tax policy.**

Business Environment

Definition of Business Environment is sum or collection of all internal and external factors such as employees, customers needs and expectations, supply and demand, management, clients, suppliers, owners, activities by government, innovation in technology, social trends, market trends, economic changes, etc.

The chapters of Business Environment:

- Introduction to Business Environment
- Forms of Business Organizations
- Scales of Business
- Emerging Trends in Business
- Business Functions

- **Introduction to Business Environment**

Business Environment is the most important aspect of any business. The forces which constitute the business environment are its suppliers, competitors, media, government, customers, economic conditions, investors and multiple other institutions working externally.

- **Forms of Business Organizations**

Forms of the business organization depend on the criteria like the nature of the business, size of operations and on many more things.

- **Scales of Business**

We always keep hearing things small business, large business, MNCs on a regular basis. These terms are nothing but a way to define the scales of business. Here in this chapter, we will study about different small-scale, medium-scale, etc.

- **Emerging Trends in Business**

Like in any other industry, business industries to witness various changes in the fashion of it’s working over the time. These changes are referred to as business trends.

- **Business Functions**

The term ‘Business Functions’ encompasses a lot more than one may think. From the resources to the management of the resources

Marketstructure

Market structure refers to the nature and degree of competition in the market for goods and services. the structures of market both for goods market and service (factor) market are determined by the nature of competition prevailing in a particular market.

Determinants of market structure for a particular good.

(1) The number and nature of sellers.

(2) The number and nature of buyers.

(3) The nature of the product.

(4) The conditions of entry into and exit from the market.

(5) Economies of scale.

Forms of Market Structure:
On the basis of competition, a market can be classified in the following ways:

1. Perfect Competition
2. Monopoly
3. Duopoly
4. Oligopoly
5. Monopolistic Competition

1. Perfect Competition Market:

A perfectly competitive market is one in which the number of buyers and sellers is very large, all engaged in buying and selling a homogeneous product without any artificial restrictions and possessing perfect knowledge of market at a time.

2. Monopoly Market:

Monopoly is a market situation in which there is only one seller of a product with barriers to entry of others. The product has no close substitutes. The cross elasticity of demand with every other product is very low. This means that no other firms produce a similar product.

3. Duopoly:

Duopoly is a special case of the theory of oligopoly in which there are only two sellers. Both the sellers are completely independent and no agreement exists between them. Even though they are inde-pendent, a change in the price and output of one will affect the other, and may set a chain of reactions. A seller may, however, assume that his rival is unaffected by what he does, in that case he takes only his own direct influence on the price.

4. Oligopoly:

Oligopoly is a market situation in which there are a few firms selling homogeneous or differenti-ated products. It is difficult to pinpoint the number of firms in 'competition among the few.' With only a few firms in the market, the action of one firm is likely to affect the others. An oligopoly industry produces either a homogeneous product or heterogeneous products.

5. Monopolistic Competition:

Monopolistic competition refers to a market situation where there are many firms selling a differ-entiated product. "There is competition which is keen, though not perfect, among many firms making very similar products." No firm can have any perceptible influence on the price-output policies of the other sellers nor can it be influenced much by their actions. Thus monopolistic competition refers to competition among a large number of sellers producing close but not perfect substitutes for each other.

Table 1 : Features of Market Structures

Features	(Market Forms)			
	Perfect Competition	Monopoly	Monopolistic Competition	Oligopoly
1. No. of Firms	Large	One	Varied but not too many	A few
2. Nature of Product	Homoge-neous	One type	Product Differentiation	Homogeneous or Differentiated
3. Entry of Firms	Free	No entry	Free	Restricted
4. Degree of Mono-poly Power	Zero	Full	Limited	Limited due to product differentiation
5. Price Policy of Firm	Price-taker	Price-maker	Price-maker	Price-maker
6. Market Knowledge	Complete	Incomplete	Incomplete	Incomplete
7. Elasticity of Demand	Perfectly elastic	Less elastic	Less elastic	Less elastic
8. AR and MR	Equal	Different	Different	Different
9. Selling Cost	No	Small	Large	Small

THANK YOU