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Supply

- Supply is an economic term that refers to the amount of a given product or service that suppliers are willing to offer to consumers at a given price level at a given period

Economic Supply:

- When the price of a product is low, the supply is low. When the price of a product is high, the supply is high. This makes sense because companies are seeking profits in the market place. They are more likely to produce products with a higher price and likelihood of producing profits than not.

Determinants of Supply

- **Determinants of supply** (also known as factors affecting supply) are the factors which influence the quantity of a product or service supplied. The price of a product is a major factor affecting the willingness and ability to supply. Here we will discuss the determinants of supply other than price
  - Number of Sellers
  - Prices of Resources
  - Taxes and Subsidies
  - Technology
  - Suppliers' Expectations
  - Prices of Related Products
  - Prices of Joint Products

- Number of Sellers
  - Greater the number of sellers, greater will be the quantity of a product or service supplied in a market and vice versa. For example, when more firms enter an industry, the number of sellers increases thus increasing the supply.
- Prices of Resources
  - Increase in resource prices increases the production costs thus shrinking profits and vice versa. Since profit is a major incentive for producers to supply goods and services, increase in profits increases the supply and decrease in profits reduces the supply. In other words supply is indirectly proportional to resource prices. Increase in resource prices reduces the supply, whereas decrease in resource prices increases the supply.

- Technology
  - Improvement in technology enables more efficient production of goods and services. Thus reducing the production costs and increasing the profits. Since technology in general rarely deteriorates, therefore it is needless to say that deterioration of technology reduces supply.
- Taxes and Subsidies
  - Taxes reduces profits, therefore increase in taxes reduce supply whereas decrease in taxes increase supply. Subsidies reduce the burden of production costs on suppliers, thus increasing the profits. Therefore increase in subsidies increase supply and decrease in subsidies decrease supply.

- Suppliers' Expectations
  - Change in expectations of suppliers about future price of a product or service may affect their current supply. However, unlike other determinants of supply, the effect of suppliers' expectations on supply is difficult to generalize. For example when farmers suspect the future price of a crop to increase, they will withhold their agricultural produce to benefit from higher price thus reducing the supply. In case of manufacturers, when they expect the future price to increase, they will employ more resources to increase their output and this may increase current supply as well.
- Prices of Related Products
  - Firms which are able to manufacture related products (such as air conditioners and refrigerators) will the shift their production to a product the price of which increases substantially related to other related product(s) thus causing a reduction of supply of the products which were produced before. For example a firm which produces cricket bats is usually able to manufacture hockey sticks as well. When the price of hockey sticks increases, the firm will produce more hockey sticks and less cricket bats. As a result, the supply of cricket bats will be reduced.

- Prices of Joint Products
  - When two or more goods are produced in a joint process and the price of any of the product increases, the supply of all the joint products will be increased and vice versa. For example, increase in price of meat will increase the supply of leather.