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PERCULIARITIES OF SUPPLY IN THE MARKET

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The article deals with the peculiarities of supply in the market. The authors point out the factors affecting supply: goods own price, price of related goods, conditions of production, government policies and regulations.

In economics, supply is the amount of some product producers are willing and able to sell at a given price all other factors being held constant. Usually, supply is plotted as a supply curve showing the relationship of price to the amount of product businesses are willing to sell.

In economics the term supply has a special meaning. It can be defined in the following.

A supply schedule is a table which shows how much one or more firms will be willing to supply at particular prices. The supply schedule shows the quantity of goods that a supplier would be willing and able to sell at specific prices under the existing circumstances. Some of the more important factors affecting supply are the goods own price, the price of related goods, production costs, technology and expectations of sellers.

Factors affecting supply

Innumerable factors and circumstances could affect a seller's willingness or ability to produce and sell a good. Some of the more common factors are:

Goods own price: The basic supply relationship is between the price of a good and the quantity supplied. Although there is no "Law of Supply", generally, the relationship is positive or direct meaning that an increase in price will induce and increase in the quantity supplied.

Price of related goods: For purposes of supply analysis related goods refer to goods from which inputs are derived to be used in the production of the primary good. For example, Spam is made from pork shoulders and ham. Both are derived from Pigs. Therefore pigs would be considered a related good to Spam. In this case the relationship would be negative or inverse. If the price of pigs goes up the supply of Spam would decrease (supply curve shifts up or in) because the cost of production would have increased. A related good may also be a good that can be produced with the firm's existing factors of production. For example, a firm produces leather belts.

The firm's managers learn that leather pouches for smartphones are more profitable than belts. The firm might reduce its production of belts and begin production of cell phone pouches based on this information. Finally, a change in the price of a joint product will affect supply. For example beef products and leather are joint products. If a company runs both a beef processing operation and a tannery an increase in the price of steaks would mean that more cattle are processed which would increase the supply of leather.

Conditions of Production. The most significant factor here is the state of technology. If there is a technological advancement in one's good's production, the supply increases. Other variables may also affect production conditions. For instance, for agricultural goods, weather is crucial for it may affect the production outputs.

Expectations: Sellers expectations concerning future market condition can directly affect supply. If the seller believes that the demand for his product will sharply increase in the foreseeable future the firm owner may immediately increase production in anticipation of future price increases. The supply curve would shift out. Note that the outward shift of the supply curve may create the exact condition the seller anticipated, excess demand.

Price of inputs: Inputs include land, labor, energy and raw materials. If the price of inputs increases the supply curve will shift in as sellers are less willing or able to sell goods at existing prices. For example, if the price of electricity increased a seller may reduce his supply because of the increased costs of production. The seller is likely to raise the price the seller charges for each unit of output.

Number of suppliers - the market supply curve is the horizontal summation of the individual supply curves. As more firms enter the industry the market supply curve will shift out driving down prices.

Government policies and regulations

Government intervention can have a significant effect on supply. Government intervention can take many forms including environmental and health regulations, hour and wage laws, taxes, electrical and natural gas rates and zoning and land use regulations.

This list is not exhaustive. All facts and circumstances that are relevant to a seller's willingness or ability to produce and sell goods can affect supply. For example, if the forecast is for snow retail sellers will respond by increasing their stocks of snow sleds or skis or winter clothing or bread and milk.