Practical Importance of Elasticity of Demand:

1. Importance in taxation policy: The concept has immense importance in the sphere of government finance. When a finance minister levies a tax on a certain commodity, he has to see whether the demand for that commodity is elastic or inelastic. If the demand is inelastic, he can increase the tax and thus can collect larger revenue.
2. Price discrimination by monopolist: If the monopolist finds that the demand for his commodities is inelastic, he will at once fix the price at a higher level in order to maximize his net profit. In case of elastic demand, he will lower the price in order to increase, his sales and derive the maximum net profit.
3. Importance to businessmen: When the demand of a good is elastic, they increases sale by lowering its price. In case the demand is inelastic, they charge higher price for a commodity.
4. Help to trade unions. The trade unions can raise the wages of the labor in an industry where the demand of the product is relatively inelastic. On the other hand, if the demand, for product is relatively elastic, the trade unions cannot press for higher wages.
5. Use in international trade: The terms of trade between two countries are based on the elasticity of demand of the traded goods.
6. Determination of rate of foreign exchange: The rate of foreign exchange is also considered on the elasticity of imports and exports of a country.
7. Guideline to the producers: The concept of elasticity provides a guideline to the producers for the amount to be spent on advertisement. If the demand for a commodity is

elastic, the producers shall have to spend large sums of money on advertisements for increasing the sales.

8. Use in factor pricing: The factors of production which have inelastic demand can obtain a higher price in the market then those which have elastic demand. This concept explains the reason of variation in factor pricing.

Supply – meaning, definition, law of supply, supply schedule, supply curve

SUPPLY

Meaning of supply

It is the amount of a commodity that sellers are able and willing to offer for sale at different prices per unit of time. In the words of Meyer "Supply is a schedule of the amount of a good that would be offered for sale at all possible prices at any period of time; e.g., a day, a week, and so on".

Difference/Distinction between Supply and Stock:

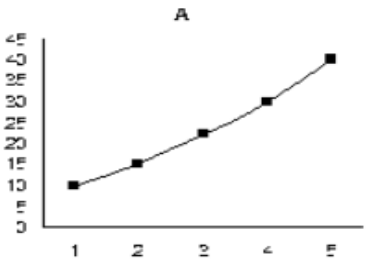
Supply refers to that quantity of the commodity which is actually brought into the market for sale at a given price per unit of time. While Stock is meant the total quantity of a commodity this exists in a market and can be offered for sale at a short notice. The supply and stock of a commodity in the market may or may not be equal if the commodity is perishable, like vegetables, fruits, fish, etc; then the supply and stock are generally the same. But in case if a producer finds that the price of his product is low as compared to its cost of production, he tries to withhold the entire or a part of a stock. In case of a favorable price, the producer may dispose off large quantities or the entire stock of his commodity; it will all depend upon his own valuation of the commodity at that particular time.

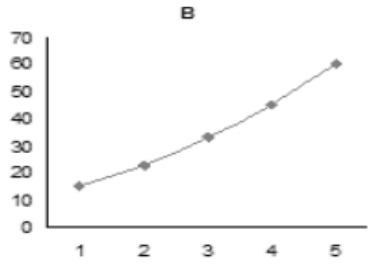
Market supply

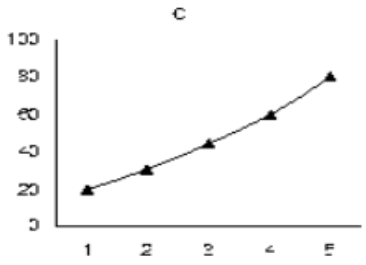
Consider the supply schedule below:

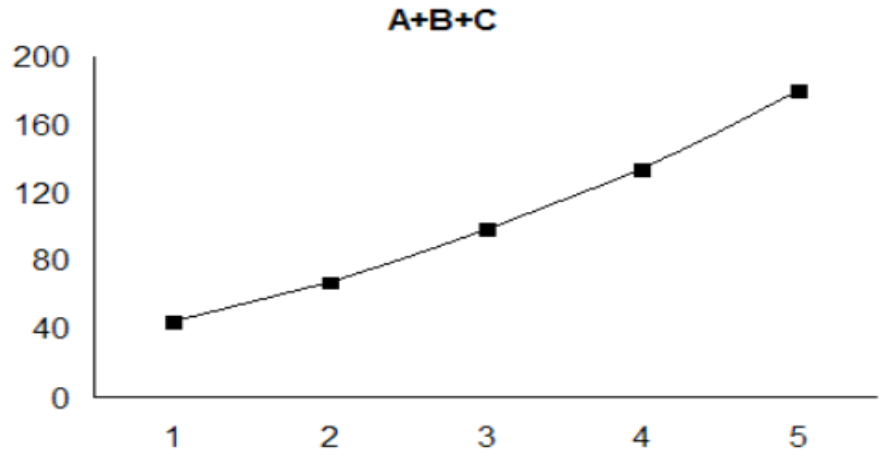
Price	Quantity supplied by			Market Supply
Rs	A	B	C	A+B+C
10	40	60	80	180
8	30	45	60	135
6	22	33	44	99
4	15	23	30	68
2	10	15	20	45

We can see in the above table, the supply schedule of three producers A, B and C for various price levels. As seen in the table above the supply of goods decreases as the price of the goods fall. Now consider that the market consists of only these three suppliers, so the market supply will be the sum of the goods supplied at various price levels all other things remaining same. The same is depicted using the charts below. The first three charts show the individual supply curve of A, B and C as per the supply schedule above, while the chart below that depicts the market supply curve i.e. the aggregate supply of A, B and C



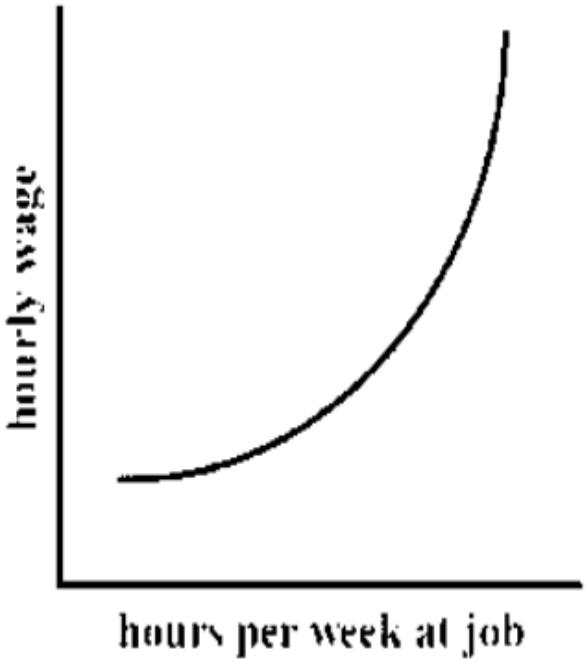






Law of Supply

The law of supply states that the quantity of a good offered or willing to offer by the producer/owners for sale increase with the increase in the market price of the good and falls if the market price decreases, all other things remaining unchanged An increase in price will increase the incentive to supply which means that supply curves will slope upwards from left to right. Supply curves can be curves or straight lines. Consider the supply of labour as in the figure below:



The above supply curve shows the hours per week at job by the labour on the X axis and hourly wages on the Y axis. As we can see that as the hourly wages increase the hours spent on job also increases. Thus the supply curve is a left to right upward sloping curve

Determinants of supply

Quantity supplied of a good/ service is affected by various factors. Several key factors affecting supply are discussed as below:

- Price of the product: Since the producer always aims for maximising his returns/profit, so the quantity supplied changes with increase or decrease in the price of the good.
- Technological changes: Advanced technology can yield more quantity and at lesser costs. This may result in the producer to be willing to supply more quantity of the goods
- Resource supplies and production costs: Changes in production costs like wage costs, raw material cost and energy costs might impact the producers' production and eventually the supply. An increase in such cost might result in lesser quantities produced and thus lesser quantities supplied and vice versa
- Tax or subsidy: Since the producer aims to minimise costs and expand profit, an increase in tax will increase the total cost, thereby decreasing the supply. Similarly a subsidy might incentivize the producer to supply more of that goods in order to maximise his profits. Tax and subsidy are two important tools used by central government to control supplies of certain goods. For example an increase in tax can be used to reduce the supply of cigarettes, while increase in subsidy can be used to increase the supply of fertilizers
- Expectations of prices in future: An expectation that the prices of goods will fall in future might lead to lessen the production by the producer and thereby decrease the supply and vice-versa.

- Price of other goods: A producer might have several options to produce. Since the money to invest is limited with the producer he would decide to produce the good which offers him the maximum profit. Thus if the producer is currently producing good A and the price of good B increases than he might switch to producing good B as this would result in better returns for him.

- Number of producers in the market: This is a very important factor or determinant of supply. If there are large number of producers or sellers in the market willing to sell goods then the supply of good will increase and vice versa

Supply function

Supply function expresses the relationship between supply and the factors (the determinants of supply, as discussed above) affecting the producer/supplier to offer goods for sale.

For instance take the supply function as below

$$Qs = f(P, Prg, S)$$

where;

P = price;

Prg = price of related goods; and

S = number of producers.

The supply curve is the graphical representation of the supply function and it shows the quantity of a good that the seller is offering or willing to offer at various prices