

ELASTICITY OF SUPPLY

Definition Of Price Elasticity Of supply

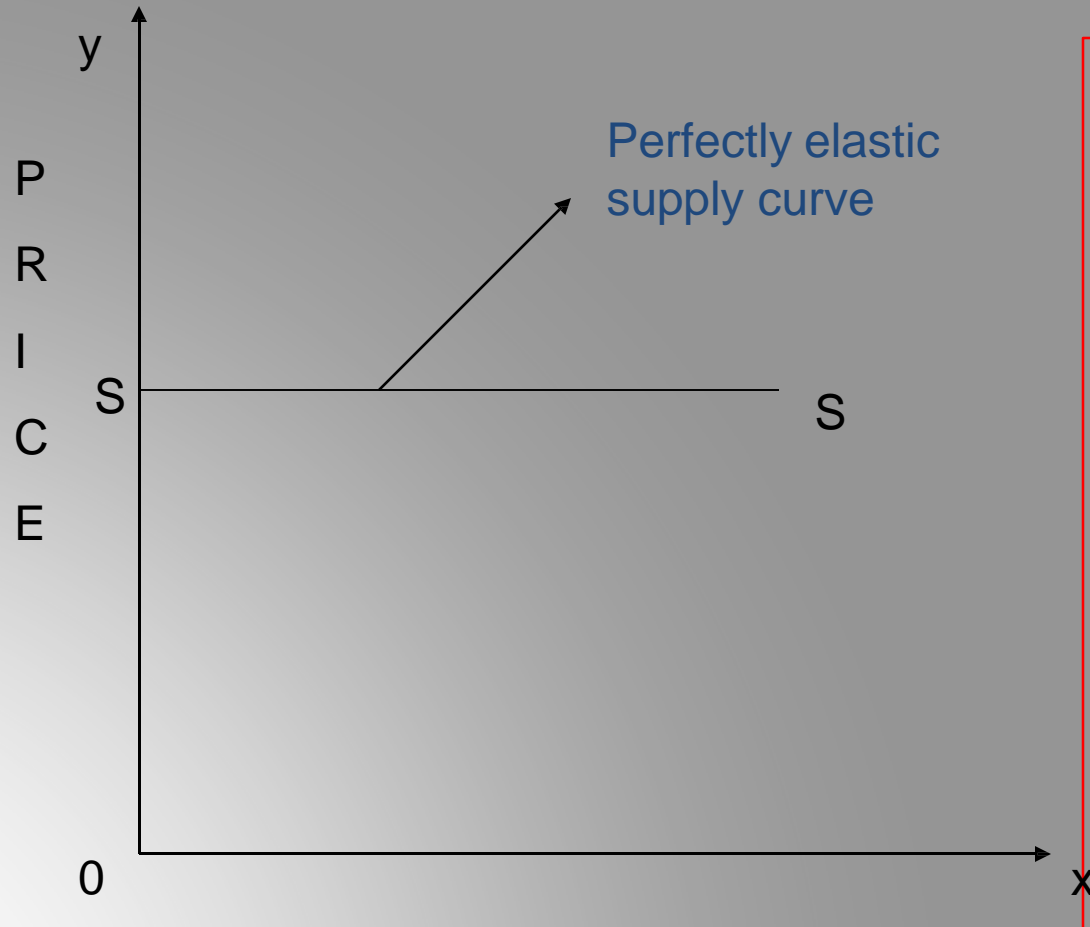
- The change in the quantity supplied of a product due to a change in its price is known as Price elasticity of supply.

Kinds Of Price Elasticity Of supply

- 1) Perfectly elastic supply
- 2) Relatively elastic supply
- 3) Elasticity of supply equal to utility
- 4) Relatively inelastic supply
- 5) Perfectly inelastic supply

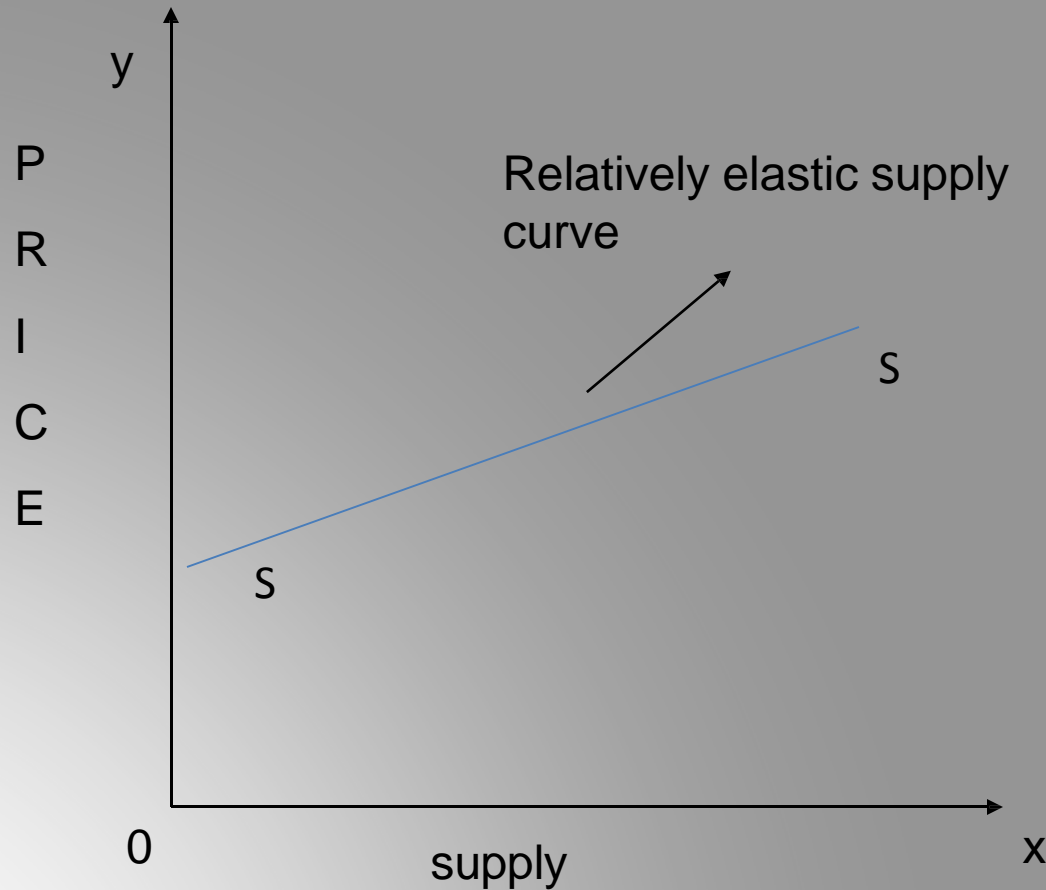
Let Us See Some Views On Them

Perfectly elastic supply



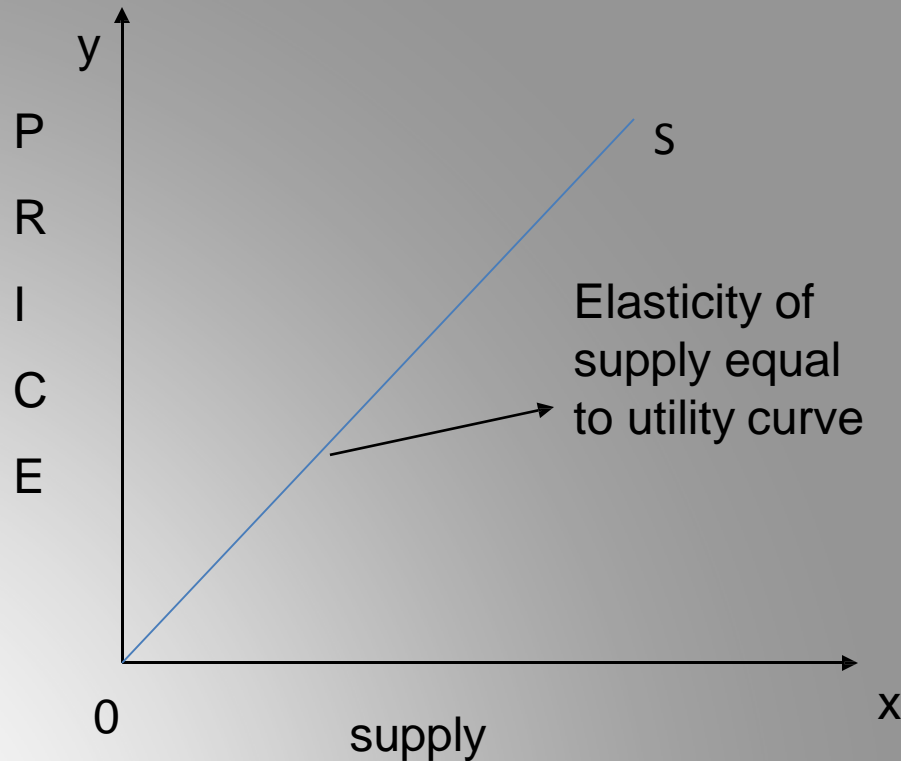
When the supply for a product changes – increases or decreases even when there is no change in price, it is known as perfect elastic supply.

Relatively elastic supply



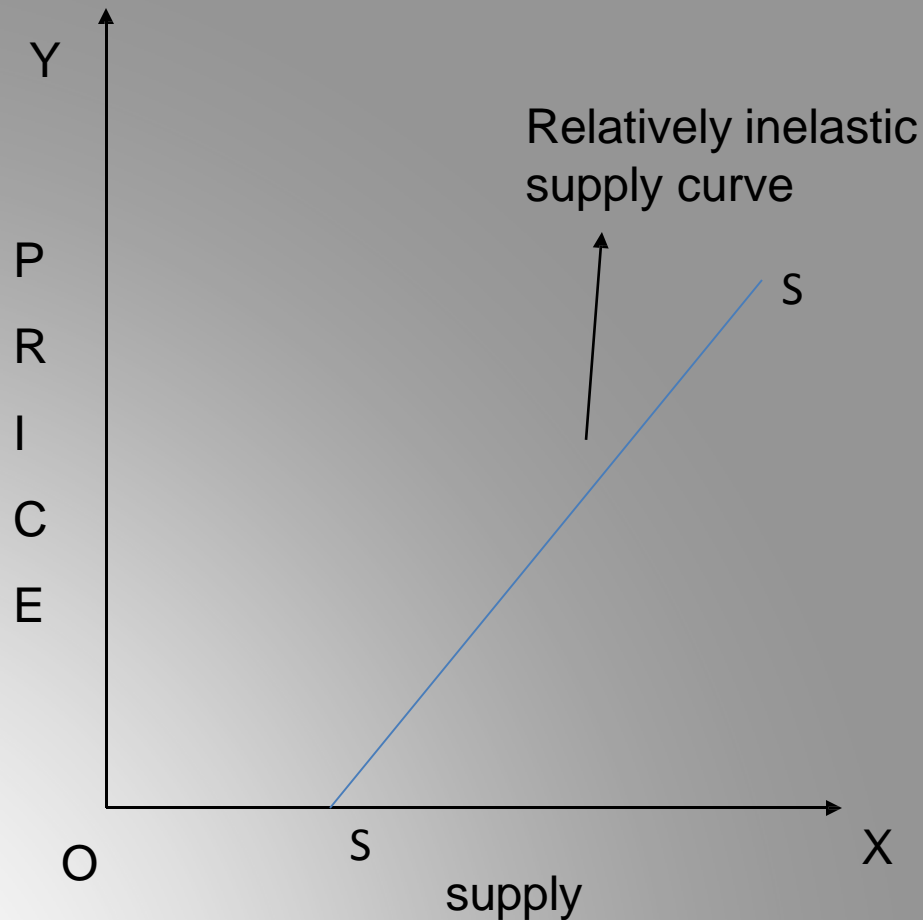
When the proportionate change in supply is more than the proportionate changes in price, it is known as relatively elastic supply.

Elasticity of supply equal to utility



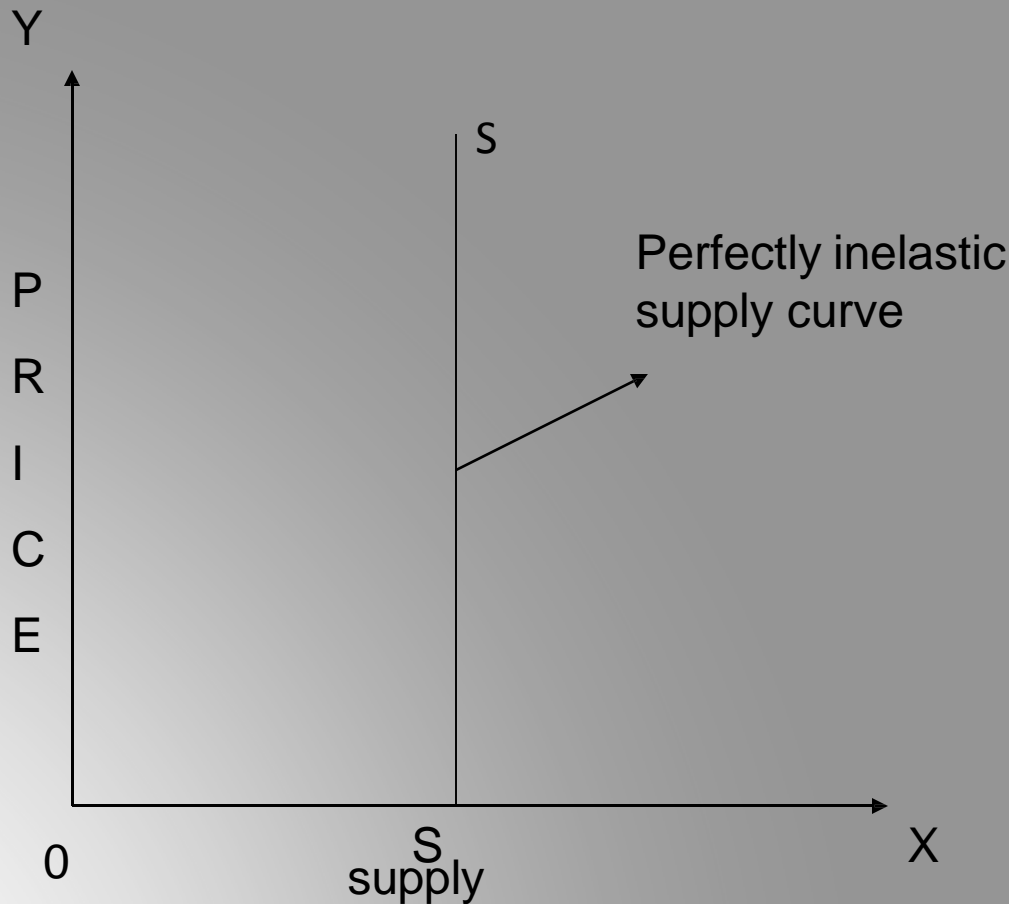
When the proportionate change in supply is equal to proportionate changes in price, it is known as unitary elastic supply

Relatively inelastic supply



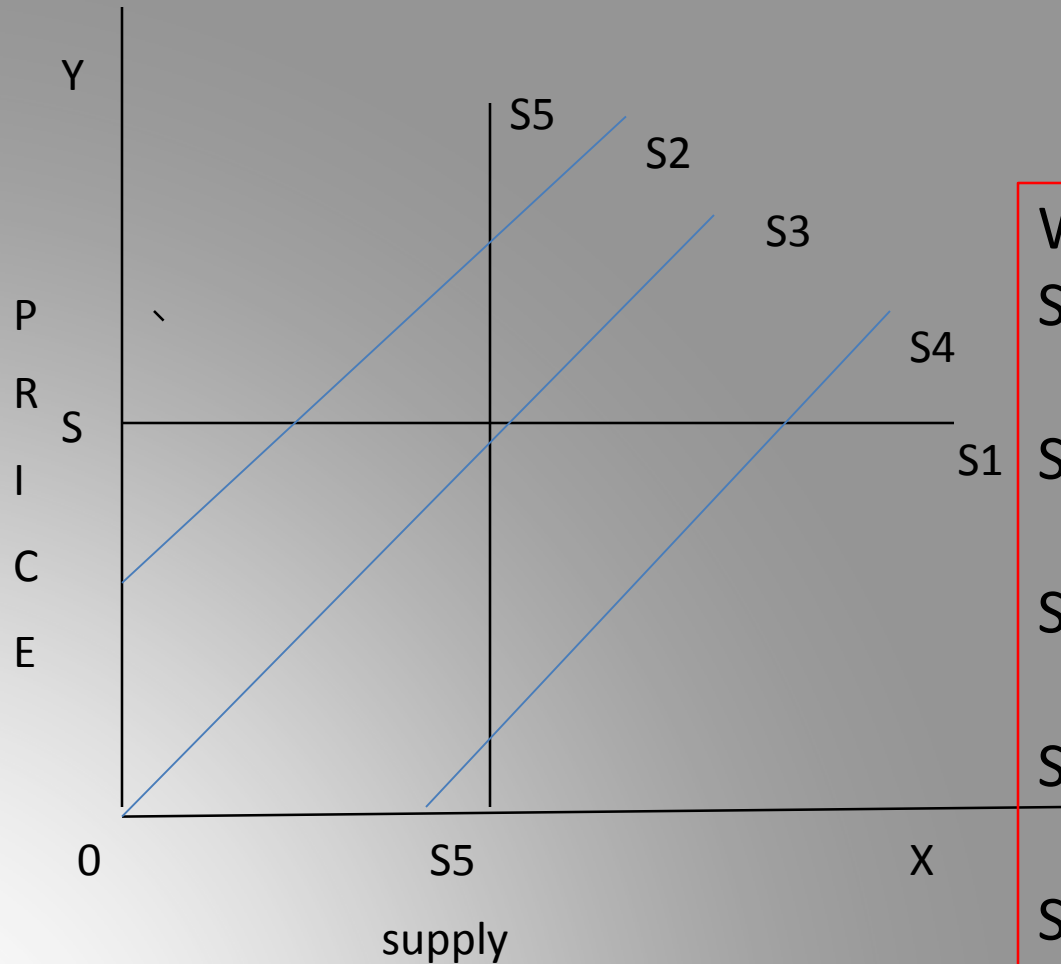
When the proportionate change in supply is less than the proportionate changes in price, it is known as relatively inelastic supply

Perfectly inelastic supply



When there is no change in the quantity supplied with the change in its price, it is perfectly inelastic supply

ALL KINDS OF supply CAN BE SHOWN IN ONE DIAGRAM AS FOLLOW



WHERE

S1) Perfectly elastic supply

S2) Relatively elastic supply

S3) Elasticity of supply equal to utility

S4) Relatively inelastic supply

S5) Perfectly inelastic supply

Measurement Of Price Elasticity Of supply

There are two methods like

1. Percentage method or proportionate method
2. Geometric method or point method

1 Percentage method or proportionate method

- $$(E_s) = \frac{\% \text{ Change in Quantity Supplied}}{\% \text{ Change in Price}}$$

- $ES = \Delta Q / \Delta P * P / Q$
- ΔQ = change in quantity supplied.
- ΔP = change in price
- Q = initial quantity supplied.
- P = initial price of the good

Geometric method or point method

$$Es = \frac{\text{Difference b/w Qty and intersect on X axis}}{\text{Difference between Qty and origin}}$$

EXAMPLE

- Price of a good falls from Rs.15 to Rs.10 and the supply decreases from 100 units to 50 units. Calculate E_s .
- $Q=100$ $P=15$
- $Q_1=50$ $P_1=10$
- $E_s = P/Q * \Delta Q / \Delta P = 15/100 * 50/5 = 1.5$
- $E_s > 1$, it is a case of elastic supply

(5) Factors Affecting Price Elasticity Of supply

Factors Affecting Price Elasticity Of supply

- **Time Factor**

1. Short period - relatively less elastic
2. Long period – more elastic

- **Nature of the commodity**

1. Perishable goods – relatively less elastic
2. Durable goods – elastic supply

- **Technique of production**

1. Complex technique - inelastic
2. Simple technique – elastic