

DEMAND AND SUPPLY

Microeconomics - In economics when economic activity studied from down to up way is called microeconomics.

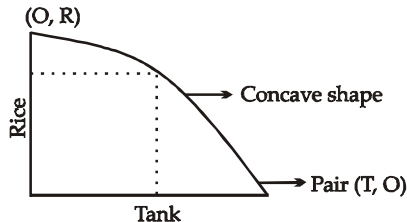
Macroeconomics - In economics when economic activity studied from up to down way is called macroeconomics.

Positive economy - This economy also known as science. We study things as they are.

Normative Economy - In this we don't study as they are but also as they should be.

Production Possibility - The central problem of any economy is called problem of choice.

Production possibility is a group of two things by which any company by means of its available resources can produce.



Types of Goods -

Normal Goods - Normal goods are those goods whose demand increases with income.

Inferior goods - Inferior goods are those goods whose demand fall with income.

Substitute goods - A group of things which can be substituted in place of another.

Complimentary goods - Things which can be used with one another not used separately.

Law of demand - Law of demand states with the price of goods increases and other factors remaining constant the demand falls.

Factors affecting demand -

1. **Income of Consumer** - When the income of consumer increases the demand increases.
2. **Cost of product** - When the cost of product increases the demand decreases.
3. **Season & fashion** - Season & fashion also effect the demand of a product. The demand out of fashion and off season products decreases.
4. **Cost of subsidiary product** - When the rise in the cost of one product diminishes the

Law of Supply - Increase in the cost of product increases in the supply.

Factors affecting supply -

1. Cost of the product.
2. Change in the technology.
3. Price of inputs.

4. Change in tax slabs.

5. Fortelling of future prices.

Production function -

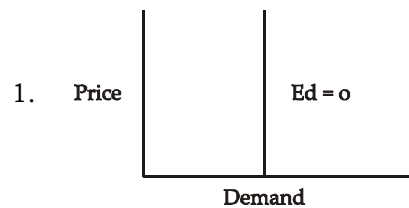
Source of production - Land, Labour, Capital are the sources of production.

The Biggest problem of production - Extracting the most out of given resources is the biggest problem of production. Technology plays an important role in todays time. It plays important role in production of commodity.

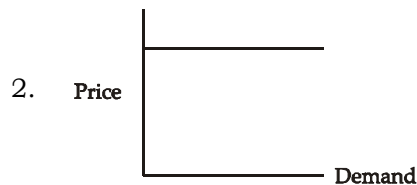
Production function - Production function means transformation of input into output the demand it increases the demand of the subsidiary product.

5. **Complimentary goods** - Increase in the cost of one product decreases the demand of the other product.

$$ed = \frac{\text{Percentage change in demand}}{\text{Percentage Change in price}}$$



$$\frac{0}{+20} = 0, Ed = 0$$



$$\frac{+30}{0} = \infty, Ed = \infty$$

Supply - Supply is the total volume of the product which is ready to be delivered by the supplier at a particular time and for a particular prize while other factors remain constant.

Short period and Long period - Short period is that period of time in which any farm can not changes some of its factors.

ex. Land, Machine, Building etc.

But it can change other variable factors.

ex. Capital & labour.

Long Period - Long period is that period of time in which a farm can change all its factors and this increases its efficiency.