

price and supply of cotton - seed (by - product) does not have significant effect on the price and supply of cotton - fibre (main product).

As regards price determination of the articles of joint products, we find that in many cases it is difficult to calculate separately the cost of production of these products. For instance, it is not possible to know the individual cost of production of cotton - seed and cotton fibre. Price of the joint products, therefore, would be determined in such a manner that their total cost is covered by the total sale proceeds. The price of each would be such that when the total supply of both is sold, the total sale proceeds is equal to total cost.

(2) Composite Supply : When a particular demand can be satisfied by more than one commodity, these commodities are said to constitute a *Composite Supply*. For example, the demand for a beverage can be satisfied by tea, coffee, cocoa, etc. the demand for cold drinks can be satisfied by fanta, sosyo, lemon, pepsi, myrinda etc. Commodities which are substitutes for each other are proper examples of composite supply. Likewise, labour and capital in so far as they can be substitute for each other may be said to constitute a case of composite supply. Articles of composite supply, though they compete with each other, yet their total supply must satisfy the total demand for that commodity. They are sometimes also known as *Competing Goods* as they compete with each other for the satisfaction of a particular want. If there is a rise in the price of one of the commodities of composite supply, its demand would fall, while the demand for its competing good or substitute good would rise.

Elasticity of Supply

(I) Meaning : We have seen that, according to the law of supply, the quantity of a commodity supplied varies directly with the price, that is, other things being equal, supply increases when the price increases and falls when the price falls. In other words, a change in the price of a commodity, other things remaining constant, brings about a change in its supply. Now, the rate at which or the extent to which the supply of a commodity, changes in response to a given change in price is known as the 'Elasticity of Supply'. In other words, the sensitiveness or responsiveness of supply to change in price is called the *elasticity of supply*.

(2) Elastic and Inelastic Supply : Supply is of two types :

(a) Elastic Supply : The supply of any commodity is said to be elastic supply when a small change in price brings about an appreciable change in the supply of that commodity. If, for example, a result of a slight fall or rise in the price of a commodity there is a substantial fall or rise in its supply, we shall say that it is a case of an elastic supply. This can be illustrated as follows :

Price	Quantity Supplied
Pcs. 5	100 units
Rs. 4.75	70 units
Rs. 5.30	125 units

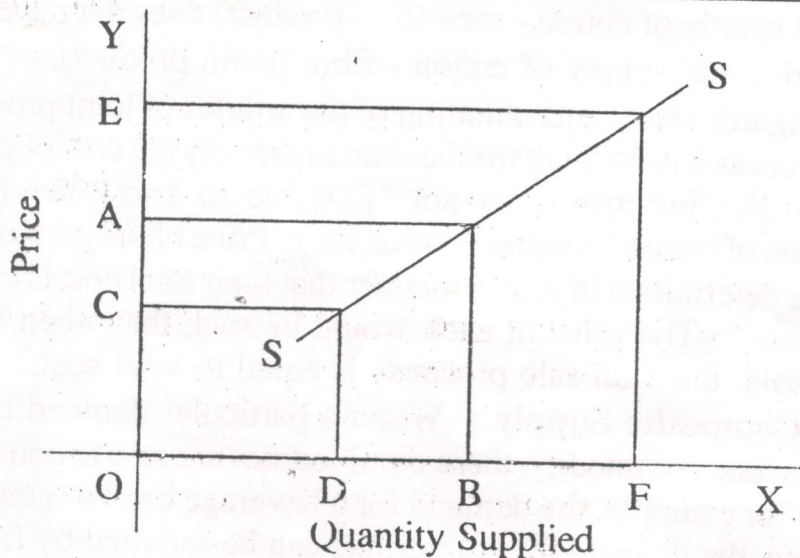


Fig. 6

At price OA, the quantity supplied is OB.

A slight fall in price from OA to OC leads to a considerable fall in supply from OB to OD. On the other hand, a slight rise in price from OA to OE leads to a considerable rise in supply from OB to OF.

SS is the elastic supply curve.

(b) **Inelastic Supply** : The supply of any commodity is said to be 'inelastic supply' when a considerable change in price brings about only a slight change in the supply of that commodity. It, for example, as a result of a substantial rise or fall in the price of a commodity, there is only a slight rise or fall in its supply, we shall speak of it as a case of inelastic supply. This can be illustrated as follows :

Price	Quantity Supplied
Rs. 5	100 units
Rs. 3.50	85 units
Rs. 6.25	110 units

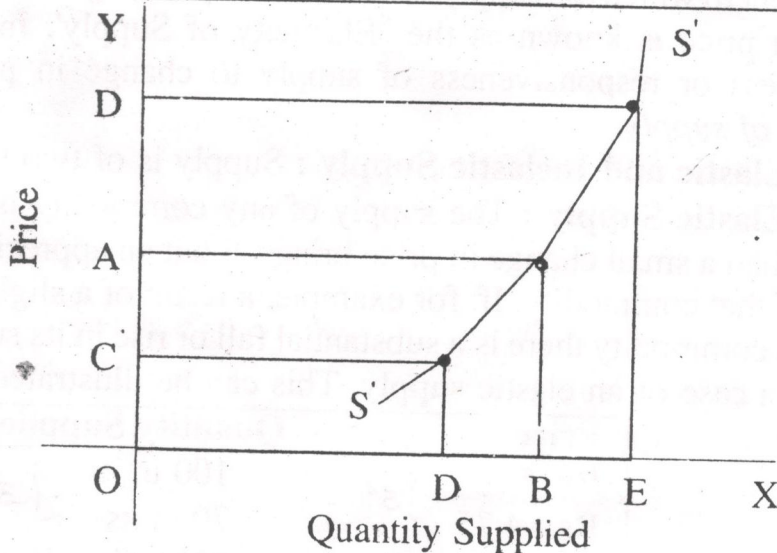


Fig. 7

At price OA, the quantity supplied is OB. When there is a substantial rise in price from OA to OD, the quantity supplied increases slightly from OB to OE; conversely, a significant fall in price from OA to OC leads to only a slight fall in supply from OB to ODO, S'S is the inelastic supply curve.

(3) Measurement of Elasticity of Supply : The elasticity of supply like the elasticity of demand may be equal to unity, more than unity or less than unity depending upon the degree in which supply responds to changes in price. Thus, for example :

(a) *The elasticity of supply will be equal to unity or one*, if the change in the amount supplied is exactly in proportion to change in price. For instance, if say, a 10 per cent increase in price leads to a 10 per cent increase in supply or a 10 per cent decrease in price leads to a 10 per cent fall in supply, we shall say that the elasticity of supply is equal to one.

(b) *The elasticity of supply is greater than unity or one*, if the change in the amount supplied is greater than the change in price. Thus, for instance, if a 10 per cent increase in price leads to a 15 per cent increase in supply, or a 10 per cent decrease in price leads to 12 per cent fall in supply, we shall say that the elasticity of supply is greater than one.

(c) *The elasticity of supply is less than unity or one*, if the change in the amount supplied is less than the change in price. Thus, for instance, if a 10 per cent increase in price leads to a 8 per cent increase in supply, or a 10 per cent decrease in price leads to a 7 per cent fall in supply, we shall say that the elasticity of supply is less than unity.

The following formula is used to measure elasticity of supply :

$$\text{Elasticity of supply} = \frac{\text{Change in amount supplied}}{\text{Original amount supplied}} \div \frac{\text{Change in price}}{\text{Original price}}$$

(4) Factors affecting Elasticity of Supply : The main factors affecting the elasticity of supply may briefly be discussed as follows :

(a) *The elasticity of supply, in the first place, depends on the nature of the commodity.* Perishable articles like milk, fruits, vegetables etc. are inelastic in supply over short periods as their supply cannot be immediately increased or decreased in response to change in price. Looked at from this point of view,