

Class B.Com-I.

Subject: Business Economics and  
Environment.

Paper : II

unit : IV

Topic : Factor Pricing: Demand and Supply Theory  
of Factor price Determination.

Lecture  
Sequence  
No :

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## Demand and Supply Theory of Factor Price Determination.

### Supply Side:

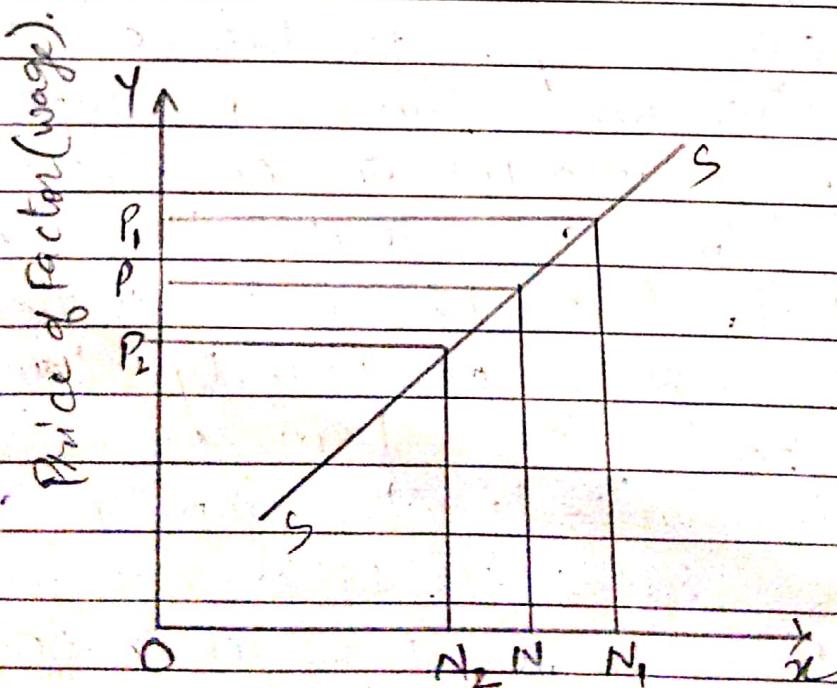
As for the supply side, the supply curve of a factor depends on the various conditions of its supply. Take the case of labour - a very important productive service. The supply of labour will depend on the size and composition of population, its occupational and geographical distribution, labour efficiency, cost of education and training, cost of movement, the expected income, relative preference for work and leisure, and so on. In this manner, by considering all the relevant factors, it is possible to construct the supply curve of a productive service.

At the same time, we must note that the supply is a bit of complicated thing. We generally say that the supply of land is limited. But the fact is that, although for the whole community land is limited for a particular firm or industry, its supply is limited. The supply can be increased if higher rent is offered.

In case of product or commodities, we see that generally an increase in price brings forth larger supplies. This however does not necessarily hold good in the case of the factors of production. It

may happen in some cases that, if wage go up, labour may be able to satisfy its needs by working for less time than before. They may prefer leisure to work. In this case, when the price of factor (or its remuneration) is increased, the supply is reduced. This peculiarity will be represented by a backward sloping curve after a stage.

Also, the supply of labour does not merely depend on economic factors many non-economic considerations also enter. All the same we can say that, if the price of a factor increases its supply will also generally increase, and vice-versa. Hence the supply curve of a factor rises from left to right upwards.



Supply of (labour) factor

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The supply of factor depends on its opportunity cost - the minimum earning which it can earn in the next best alternative use. The factors influencing the supply of a factor of production are as follows:

- (i) Reward of factor.
- (ii) mobility of factor.
- (iii) cost of education and training of the factor.
- (iv) Transportation cost of the factor.

As per the fig. given above the supply curve of the factor which shows that if the price of a factor increases, its supply will also increase and vice-versa. When the price of a factor increases from  $OP_1$  to  $OP_2$ , the supply of the factor also increases from  $ON_1$  to  $ON_2$ .

Similarly when price decreases to  $OP_2$ , its supply also decreases to  $ON_2$ .