

B.A PART 1

MICRO ECONOMICS

EXCEPTION OF LAW OF SUPPLY

Revision notes

Exceptions to Law of Supply

As a general rule, supply curve slopes upwards, showing that quantity supplied rises with a rise in price. However, in certain cases, positive relationship between supply and price may not hold true.

The various exceptions to the law of supply are:

1. Future Expectations:

If sellers expect a fall in price in the future, then the law of supply may not hold true. In this situation, the sellers will be willing to sell more even at a lower price. However, if they expect the price to rise in the future, they would reduce the supply of the commodity, in order to supply the commodity later at a high price.

2. Agricultural Goods:

The law of supply does not apply to agricultural goods as their production depends on climatic conditions. If, due to unforeseen changes in weather, the production of agricultural products is low, then their supply cannot be increased even at higher prices.

3. Perishable Goods:

In case of perishable goods, like vegetables, fruits, etc., sellers will be ready to sell more even if the prices are falling. It happens because sellers cannot hold such goods for long.

4. Rare Articles:

Rare, artistic and precious articles are also outside the scope of law of supply. For example, supply of rare articles like painting of Mona Lisa cannot be increased, even if their prices are increased.

5. Backward Countries:

In economically backward countries, production and supply cannot be increased with rise in price due to shortage of resources.