

# THE PRODUCER'S OFFER AND BEHAVIOR

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## **Abstract:**

*The main purpose of this study is to surprise in terms of theory but mostly practical, essential aspects found in the producer's behavior, especially those related to one of the main attributes of it, namely the calculation of the offer.*

*Thus, each manufacture company has to respond to some questions: what goods they have to produce, in what assortments and quantities and how must be combined the production factors in order to obtain a volume of production in concordance with the demands of the market. The function to answer to these questions is determined by the volume and structure of the activity, the expenses with the production factors and the profit.*

**Keywords:** supply and demand, the price, the consumption, producer behavior.

**JEL classification:** D01, D60

## **1. Introduction**

The exchange of goods and its evolution has given rise to the market. She has appeared as a result of the development of social division of labour, through the vision that has been achieved between the manufacturer and the consumer. This separation has led to products that the goods from the manufacturer to the consumer through the market. The market is therefore a complex economic category, reflecting the totality of relations for sale – buying taking place in society, their interaction, in close connection with economic space in which they occur is meeting market demand and consumer demand, the sellers of the confrontation between them. So, the market reflects the real relations between production and consumption, through the relative categories of supply and demand and price categories [3].

Analysis of problems concerning tender is a continuation of economic resources and analysis of production factors, and a continuation of the analysis of economic goods.

The offer represents the quantity of an economic good that producers are able and willing to produce (to bring the market) at a given moment or in a given period, at different levels of price[10].

The producer determines the offer on the market by analyzing the production function and the function of the costs. The offer of goods is permanently related to the production of goods, representing their finalization on the market. The producer with the help of his informational system perceives the signals of his environment, focusing to adapt his decisions as precise as possible to the exactingness of the market for the significant growth of his competitiveness degree [8].

The offer refers both to the existent products and to those that came out from the product of fabrication. In relation to the offer, there must be known the following aspects of the economic calculus of the product:

1) The determination of the level of production for which it is obtained the maximum profit.

The profit is maximum for that volume of the production for which the sale price is equal to the marginal cost of the product necessary to obtain a supplementary unit of product.

The maximization of the profit presupposes that the finalization of each supplementary unit of production to necessitate a smaller cost of output.

The quantity offered by the producer depends on his conditions of production reflected in the medium cost, the marginal cost and on the sale price.

2) The profitableness threshold of an enterprise represents the point for which a certain level of its production, the price is equal to the medium cost and the profit is null.

Overall, the attempts are equal to the expenses. It can have as a signification the moment and the conditions through which the enterprise starts to become profitable, both the moment and the conditions in which the enterprise cease to be profitable.

3) The elasticity of the offer related to the price

The elasticity of the offer measures the relative variation of the offered quantities, consecutive to a relative variation given to the price [1].

The producers will have to orient themselves towards the market on which the offer has the biggest elasticity, because based on the high prices, the attempts and the profit will be maximum.

The buyers will have to orient towards the market on which the offer has the smallest elasticity, being possible the purchase of bigger quantities with relatively small prices.

## **2. Theoretical issues concerning the conduct of the manufacturer and supply calculation**

In the development of its activity, a company simultaneously acts on two markets of its entrances, that is the market of the production factors which it needs, where the company appears in its capacity of customer and aims that through the provisioning mode, the production factors minimize their costs, other of its outlets where the company appears as a supplier which retails the products following to register itself on the customers' curve of demand and trying to maximize the profit.

A producer depending on his capacities that he disposes on the situation of the market and on the purposes that he aims at can choose for the realization of the following objectives [3]:

1) the maximization of the production volume for a given level of the resources.

2) the minimization of the production costs for the production volume .

3) the maximization of the profit in the conditions of the resources of which he disposes.

The objectives followed with priority can modify from a period to another, depending on the modification of the prices of the production factors, of the prices of the finite products or of the producer's resources.

The producer must gather documentation regarding the prices of the market, which in a complete market economy cannot influence them and to determine the resources that he disposes. The size of the resources depends on the anterior attempts and on the attracted or borrowed sources.

If the producer uses all the resources that he disposes of for the acquisition and use of the production factors, it means that the level of their total costs will be equal to the size of the resources.

The producer questions himself how to combine the two production factors in the conditions of its budget. Accepting that the two factors are: the production means taken globally and the manpower, the producer has a certain possibility of substitution

of the production factors, modernizing the production percent and reducing the manpower or maintaining unchanged the technical conditions of production and using the more numerous manpower.

Any producer must realize substantiation of the cost and of the profit margin in order to be able to appreciate that the regular characters of the market to act over the level of the price if he can choose or not for the manufacture of the respective product.

The goods offer can come from a producer or from the total producers who sell that good[2].

There are inter-conditioning reciprocal relations between the offer and the price, relations like from cause to effect: the offer determines the price, but also the price determines the offer. The first relation, the offer determines the price, is being manifested in the change process on the market, being related to the evolution of the demand-offer report.

The second relation can be expressed through the fact that the level of the price is higher and growing, the offer increases or has the tendency to grow and when the price is smaller and lowering, the offer is reduced or has the tendency to reduce[9].

The continuous multiplication and renewal of the assortment of products reflects the modifications that interfere in the needs, and the diversification process of the offer of goods covers two aspects: the enlargement of the assortments range through the appearance of new products, which are added to those existing ones and the change of the structure of the assortments through the replacement of some of them with new products, forming the offer from the market, being able to have a longer or shorter life, each constituting its own cycle of life, which show the period in which the respective good exists on a certain market, the interval between the finalization of the product by the producer and its sale through a seller towards the final consumer or intermediary.

The cycle of life of the products must not be mistaken for the physical life duration or the cycle of utilization of this, which takes into consideration the time passed between the final phase of manufacturing of an exemplar from a product and its destruction or cassation[3].

The offer is the development in time of the producing agent's economic behavior. The offeror follows an optimum level of production which 1) maximizes the profit and which corresponds to a demand anticipated by him on the market he has into account. Depending on the level of demand, the sold quantity can be different from the offered quantity. Only the effective demand will determine the sold production, in the end the producer's options lead to an excess offer at a difference between the offered quantity and the sold quantity from its product [7].

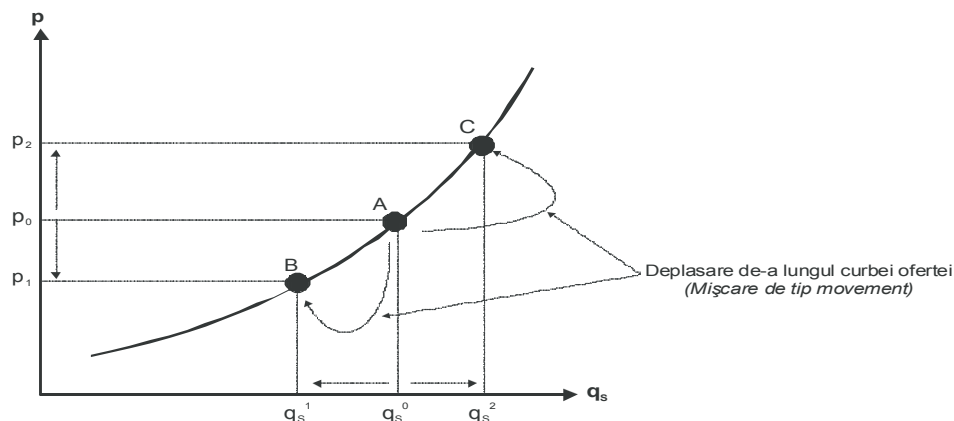
The modification of the price of a good on the market determines the extension or contraction of the offer, so that to each price level will correspond a certain offered quantity. If the price grows, the offer extends, the offered quantity will grow and if the price is going to be reduced, the offers contracts, and the offered quantity is reduced[4].

In terms of price, the supply curve is constant and we have moving type movement of supply quantity (moving along the supply curve (figure 1)).

The production of each good presupposes certain social, political and natural conditions. The social-political and judicial frame presents a big importance for the assurance of each economic activity.

The production of goods in the aim of satisfying the consumption needs is possible in the conditions in which the enterprisers disposing of economic resources combine and efficiently use the production factors. The enterpriser's ability permits the selection of the most favorable alternatives of combination of the production factors on the bases of the economic rationality principle in order to obtain the possible maximum results with the resources that they dispose of [3].

The production activity can be seen as an ensemble of utilization and transformation operations of the production factors in order to achieve the producer's objective function – the maximization of the profit.



**Figure 1- The movement of movement of supply**

Sursa: Vaduva Cecilia - "Pricing and competition", Academic Publishing, Brancusi, Târgu Jiu, 2008.

The managers of a company are permanently mistaken for the selection of some optimum variants of combination of the production factors which offers them a certain level of the production and permits them to maximize the profit.

The essential problem is being constituted by how many resources are necessary for the manufacturing of a good, at the same time is taken into consideration the possible maximum volume of the production which is being obtained with a given quantity of resources. These limits of production and the relation between the entrances and outlets, the relation between the discounted production to be obtained from a good in order to satisfy the demands of the market and the quantities from different production factors necessary to obtain it are expressed through the production function.

A homogeneous production function is usually used in the analysis of the producer's behavior.

The selection of the producer realized on the bases of the production function is a telluric side and an economic one. The telluric efficiency takes into consideration the minimization of the entrances of production factors used in the production process established according to a certain specific rule. The economic efficiency represents the less expensive combination of the production factors. When there are jointly used production factors, the quantity of a factor can be constantly increased even in the conditions in which the quantity from the other factor remains relatively without being diminished the obtained supplementary volume of the production, a bigger number of units from the variable factor is combined with a part in a relative mode less and less reduced from the constant factor[3].

The information regarding the production must be associated to the prices of the production factors in order to establish the total and medium costs born by the company.

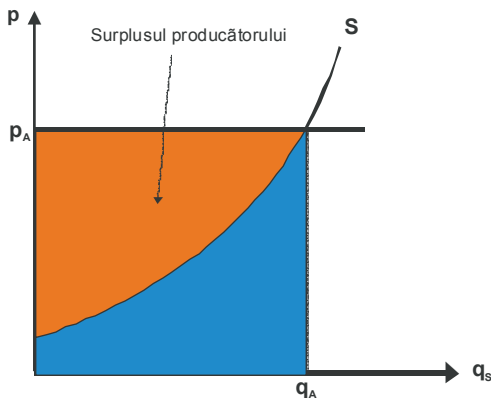
In the market economy, the cost constitutes a useful economic instrument in the substantiation and endorsement of the decisions regarding the allocation of the resources, the volume and the production structure, the increase and restriction of the offer of goods.

Producer surplus is the apparent result gain due to the sale of a specific quantity (number of units) from a good place in the sale of the unit with the unit.

When the effects or the results of the percentage variants are equal, the choice criterion of an optimum variant is represented by the low level of the cost. The tendency

to calculate the cost is being manifested in the most different structures of activity; the production cost presents interest in general, but also the distribution cost, the work cost, the education cost, the health, the information, the time administration, the debt of the life cost, the inflation, the unemployment, the crisis, the negative externalities cost.

The cost is being analyzed and followed in the conditions in which the interdependencies between the branches, sub-branches, economic agents are accentuated, so that, that which constitutes in a place the sale price of the respective products, in another place it represents the cost of the purchased production factors. The price variations are transmitted in chain like a propagated effect in the costs also.



**Figure 2- Determination of producer surplus**

Sursa: Vaduva Cecilia - "Pricing and competition", Academic Publishing, Brancusi, Târgu Jiu, 2008.

The functioning and development of the activity on the efficiency principal takes into consideration the relation between the cost and the sale price at each economic good, relation like from a part to a whole. The cost designates only a part of the sale price, the expenses born by the economic agents, and the excess of the price represents the profit (benefits).

In the conditions of a certain margin of profit, the increase of the cost pressures over the price.

The combination of the production factors becomes a key element for managers, contributing to the optimization of the producers' behavior.

### **3. Case study on the importance of size determinations for supply manufacturer**

Supply and demand is the basic elements of market mechanism and are used in various fields. We embrace how it can be used for demand and supply theory in the formation of appropriate market economy mentality.

To better understand the mechanism of the operation of the market economy, we will describe the behavior of economic agents depending on the crude oil price rise and its derivatives. At the beginning of the century, until 1973, increased oil consumption. This increase was caused by lower oil prices compared to the price of other types of fuel. During this period of economic actors organize the activity starting from the existence of abundant petroleum resources, accessible at a relatively low price.

Since 1973, there has been a sudden change in the price of crude oil. This change was caused by the rising price of crude oil at \$ 2.90 at \$ 9 a barrel in the year 1978. A dramatic increase in the price (from \$ 12 to \$ 30 per barrel) took place in the years 1978-1980.

Businesses have responded to the rising price by trying to limit the consumption of crude oil. For example, the rising price of gasoline has led consumers to demand cars

with lower fuel consumption. The shock of the price of crude oil products are geared towards the design of car makers of small cars, the architects – towards wider use of solar energy in buildings, heating his chemists-researchers to identify alternative solutions to oil consumption.

The decrease in demand for cars with high petrol consumption has brought to the fore the issue of restructuring the company, manufacture products better suited to the demands of the market. In the conditions of market economy, delay the restructuring activity who are suffering enormous losses. Thus, "General Motors" largest producer of automobiles in the period July-September loss figures in 1980, 567 million dollars.

Theory of demand and supply can also be used in:

- analysis of the influence of the impositar system of the manufacturer and the consumer;
- analysis of the impact of Government interference in the economy through pricing or use of minimal prices through the use of fees and charges for regulating the importation, etc.

We will elucidate the application of the theory of supply and demand through the following example. We admit that in 2010 in Romania have achieved 3000 thousand tons of gasoline at a price of 5 pence a liter. From 01.01.2011 the Government would have decided to tax every gallon of gasoline sold 0,50 lei. What amount will be made in the budget in 2000 behind the introduction of tax? Who will fall on the shoulders of the tax burden?

To respond to these questions we present graphically the petrol market situation in 2010. Suppose that in 2010 the market lies in the balance of  $E_0$  (Figure 3).

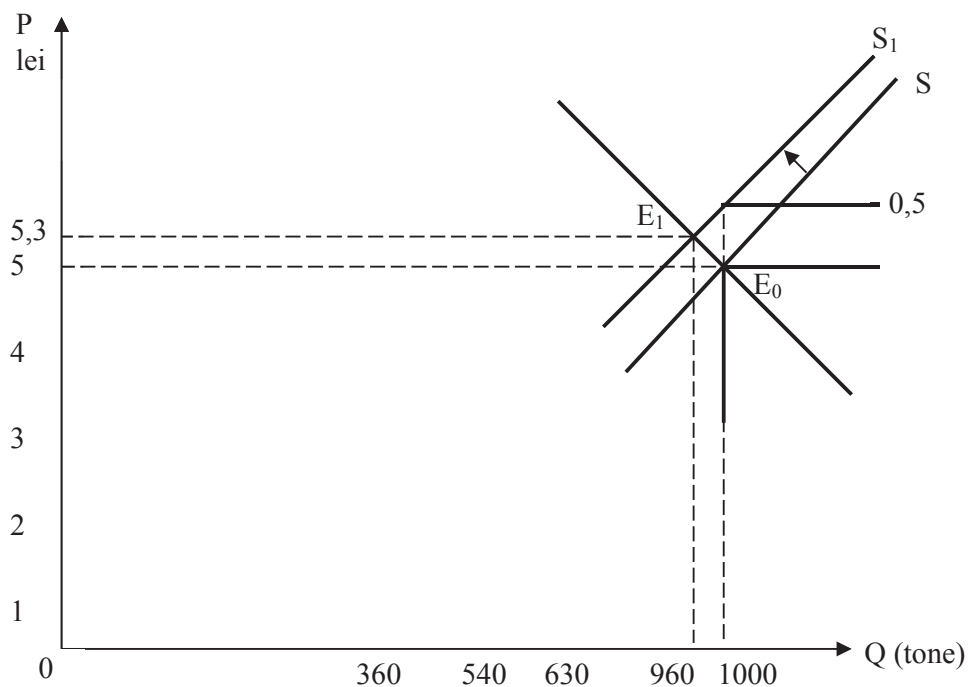


Figure 3

Introduction of tax of 0,50 lei supply curve shifts upwards. After the introduction of the tax, to install a new balance  $E_1$  coordinates  $Q_1 = 960$  tons,  $P_1 = 5,30$  lei. The budget income tax will be  $960000 * 0,30 = \$ 288000$ . As chart of tax is \$ 0.30 paid consumer, and 0.20 euro – producer.

In conclusion, the size of the tax burden that can come back to the consumer or the producer depends on the location of the demand and supply curves. In other words, the demand and supply theory emphasizes the fact that the tax can be used by the State as an economic lever in regulating economic life.

#### **4. Conclusion**

In this paper I had in mind that the results of the use of resources is presented as an offer, while human needs in the form of the application. The two sides of the market were considered as the dependent variable of various factors, in particular of the price change. With each specific determinations, and demand is tied and faces permanently between them after certain rules.

Supply and demand for each factor has an influence greater than or less than, some factors influencing on the upside, the amount of supply and demand, and other factors influencing their downside.

In generally, we can say that supply and demand are the categories of the market, and it salary of them constitute a form of expression of the relationship between production and consumption.

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