

↳ It is clear from figure-1.3 that at the equilibrium point, if the demand curve is more elastic than the supply curve, we get the price volatility falling, and the price will converge on the equilibrium.

Criticism of Cobweb Theory

- * This is not strictly a trade cycle theorem for it is concerned only with the farming sector. It does not cover up other areas.
- * This theorem has false assumption that farm output primarily is based on price. There are various factors which also affect the farm output like - climatic conditions, prices of agricultural inputs.
- * This theory is based on the false assumption that the current year sowing of crop depends on the previous year prices. Agriculturist also insists on future expectations from market analysis.
- * This theory explains that divergence of price equilibrium if continues but in practical world continued divergence is impossible.

END