

supply

Supply

- Individuals control the factors of production – inputs, or resources, necessary to produce goods.
- Individuals supply factors of production to intermediaries or firms.

Supply

- The analysis of the supply of produced goods has two parts:
 - An analysis of the supply of the factors of production to households and firms.
 - An analysis of why firms transform those factors of production into usable goods and services.

The Law of Supply

- There is a direct relationship between price and quantity supplied.
 - Quantity supplied rises as price rises, other things constant.
 - Quantity supplied falls as price falls, other things constant.

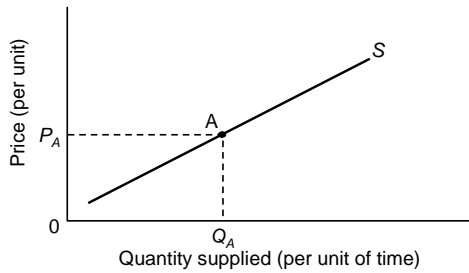
The Law of Supply

- The law of supply is accounted for by two factors:
 - When prices rise, firms substitute production of one good for another.
 - Assuming firms' costs are constant, a higher price means higher profits.

The Supply Curve

- The supply curve is the graphic representation of the law of supply.
- The supply curve slopes upward to the right.
- The slope tells us that the quantity supplied varies directly – in the same direction – with the price.

A Sample Supply Curve



Shifts in Supply Versus Movements Along a Supply Curve

- Supply refers to a schedule of quantities a seller is willing to sell per unit of time at various prices, other things constant.

Shifts in Supply Versus Movements Along a Supply Curve

- **Quantity supplied** refers to a specific amount that will be supplied at a specific price.

Shifts in Supply Versus Movements Along a Supply Curve

- Changes in price causes changes in quantity supplied represented by a movement along a supply curve.

Shifts in Supply Versus Movements Along a Supply Curve

- A *movement along a supply curve* – the graphic representation of the effect of a change in price on the quantity supplied.

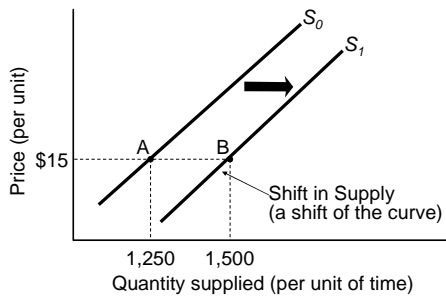
Shifts in Supply Versus Movements Along a Supply Curve

- If the amount supplied is affected by anything other than a change in price, there will be a shift in supply.

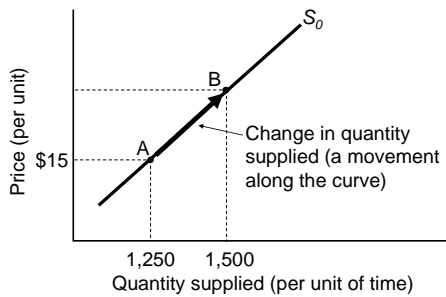
Shifts in Supply Versus Movements Along a Supply Curve

- **Shift in supply** – the graphic representation of the effect of a change in a factor other than price on supply.

Shift in Supply



Change in Quantity Supplied



Shift Factors of Supply

- Other factors besides price affect how much will be supplied:
 - Prices of inputs used in the production of a good.
 - Technology.
 - Suppliers' expectations.
 - Taxes and subsidies.

Price of Inputs

- When costs go up, profits go down, so that the incentive to supply also goes down.
- If costs go up substantially, the firm may even shut down.

Technology

- Advances in technology reduce the number of inputs needed to produce a given supply of goods.
- Costs go down, profits go up, leading to increased supply.

Expectations

- If suppliers expect prices to rise in the future, they may store today's supply to reap higher profits later.

Taxes and Subsidies

- When taxes go up, costs go up, and profits go down, leading suppliers to reduce output.
- When government subsidies go up, costs go down, and profits go up, leading suppliers to increase output.

The Supply Table

- Each supplier follows the law of supply.
- When price rises, each supplies more, or at least as much as each did at a lower price.

From a Supply Table to a Supply Curve

- To derive a supply curve from a supply table, you plot each point in the supply table on a graph and connect the points.

From a Supply Table to a Supply Curve

- The supply curve represents the set of minimum prices an individual seller will accept for various quantities of a good.

From a Supply Table to a Supply Curve

- Competing suppliers' entry into the market places a limit on the price any supplier can charge.

Individual and Market Supply

Curves

- The *market supply curve* is derived by horizontally adding the individual supply curves of each supplier.

From Individual Supplies to a Market Supply

Quantities Supplied	(1) Price (per DVD)	(2) Ann's Supply	(3) Barry's Supply	(4) Charlie's Supply	(5) Market Supply
A	\$0.00	0	0	0	0
B	0.50	1	0	0	1
C	1.00	2	1	0	3
D	1.50	3	2	0	5
E	2.00	4	3	0	7
F	2.50	5	4	0	9
G	3.00	6	5	0	11
H	3.50	7	5	2	14
I	4.00	8	5	2	15

From Individual Supplies to a Market Supply

