



The Basics of Supply

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- Like demand, the word **supply** has a specific meaning in economics.
- **Supply** refers to the willingness and ability of sellers to produce a good or service
 - Willingness: a person wants or desires to produce and sell the good
 - Ability: a person is capable of producing and selling the good

The Law of Supply

- The **law of supply**-quantity supplied varies positively (or directly) with price, other things constant.

 Price =  quantity supplied

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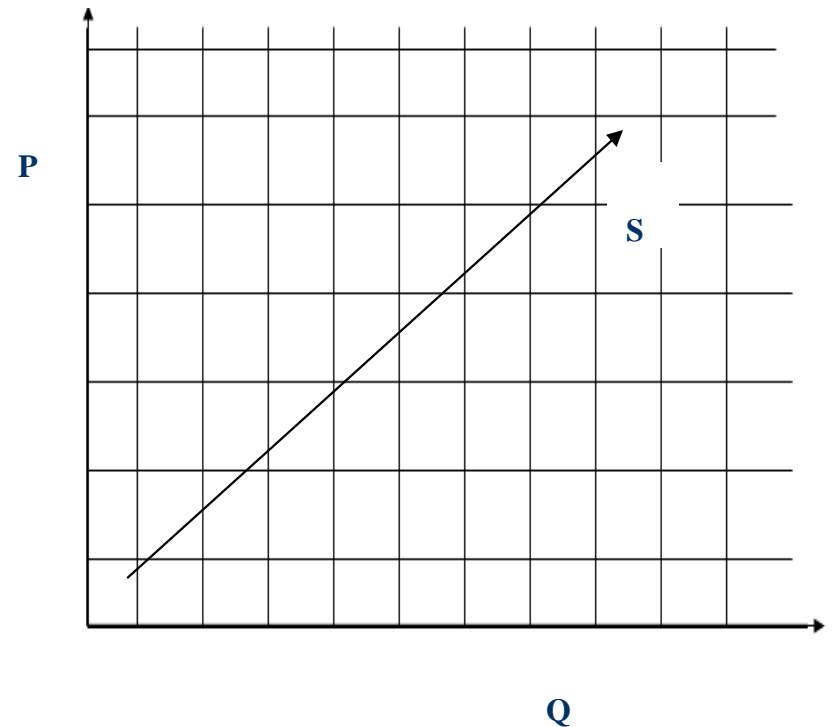
Why are price and quantity supplied positively (directly) related?

- According to economists it is because of the **Profit motive.**
- Producers are more willing and able to supply more goods at higher prices than at low prices because a higher price makes production more profitable

$$\text{Profit} = \text{Total Revenue} - \text{Total Cost}$$

How We Look at Supply -- The Supply Schedule and Curve

- A schedule is a table that lists the quantity of a good that a producer is willing to make at each price. This is the **STORY**.
- The vertical axis ALWAYS shows **price**
- The horizontal axis ALWAYS shows **quantity supplied**
- Plot the points on the schedule
- Connect the dots!!
- The **Supply** curve slopes **UP**.
- Now you have created a PICTURE OF THE STORY.

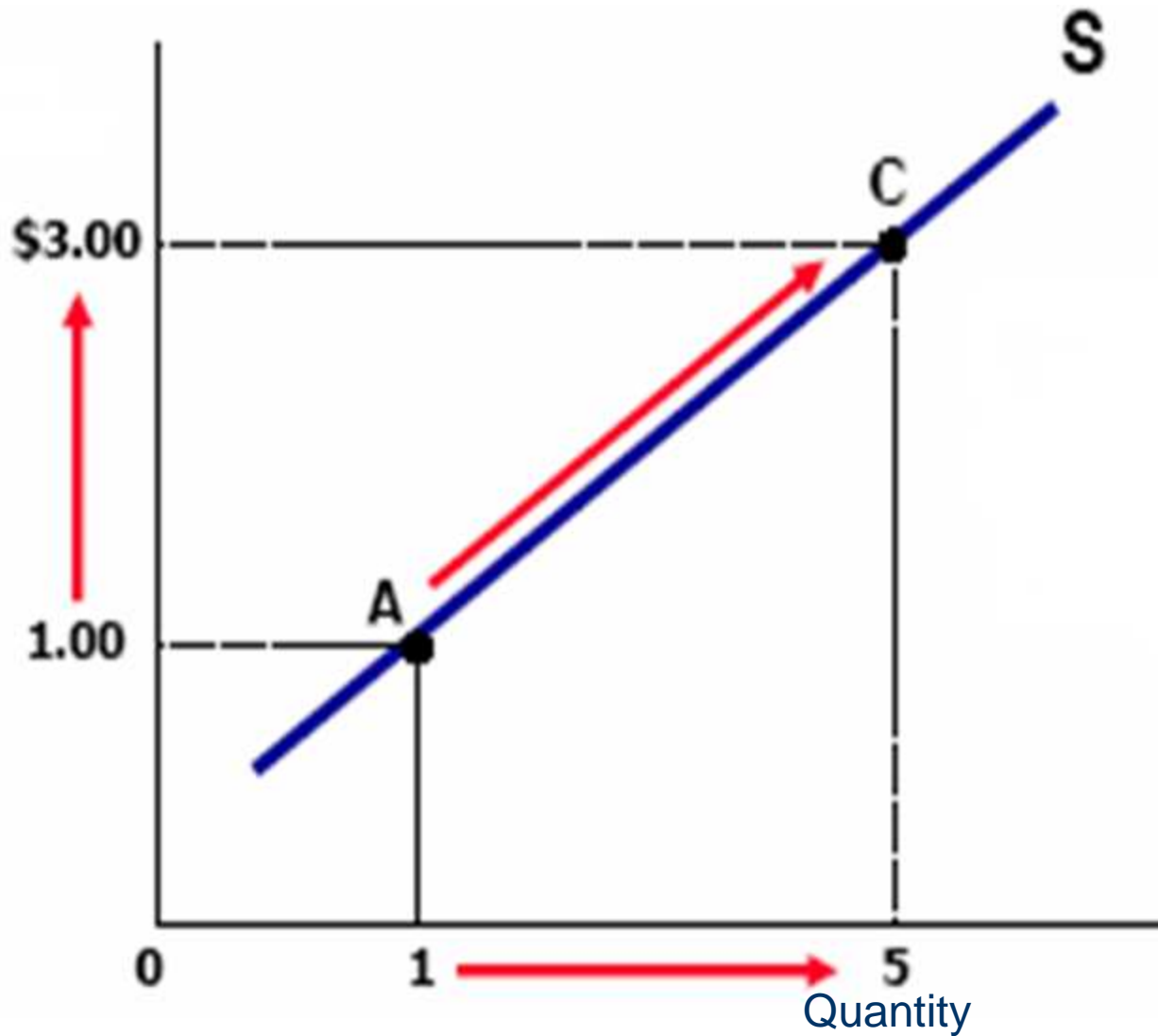


Movement Along a Supply Curve

- A change in the price is a change in the quantity provided, other things constant.
- This causes a movement along a supply curve.

Change in Quantity Supplied

Price





On to ... Determinants of Supply



DETERMINANTS OF SUPPLY

Factors That Can Shift the Supply Curve:

Changes in . . .

- The cost of resources used to make the good
- Technology used to make the good
- Producers' price expectations
- Producers' expectations of the costs of resources
- The number of sellers in the market (competition)

Practice Problem #1

What would happen to the supply of pizza if more businesses enter the pizza market?

- Determinant?
- Increase or decrease in supply?

Answer to Practice Problem #1

What would happen to the supply of pizza if more businesses enter the pizza market?

- Determinant – more sellers in the market place (competition)
- Increase in supply

Practice Problem #2

What would happen to the supply of Nike shoes if there is an increase in the cost of rubber?

- Determinant?
- Increase or decrease in supply?

Answer to Practice Problem #2

What would happen to the supply of Nike shoes if there is an increase in the cost of rubber?

- Determinant –The cost of resources used to make the good
- Decrease in supply

Practice Problem #3

- A new technology is invented that allows factories to produce energy drinks more efficiently.
- Determinant?
- Increase or decrease in supply?

Answer to Practice Problem #3

- A new technology is invented that allows factories to produce energy drinks more efficiently.
- Determinant – Improved technology used to make the good
- Increase in supply

Practice Problem # 4

- A company that makes video games pays their workers the minimum wage. The government passes a law that increases the minimum wage businesses can pay workers.
- Determinant?
- Increase or decrease in supply?

Practice Problem # 4

A company that makes video games pays their workers the minimum wage. The government passes a law that increases the minimum wage businesses can pay workers.

- Determinant – the cost of resources to make the goods
- Decrease in supply of video games

Practice Problem # 5

- A computer company finds out a competitor is planning to sell a new and improved type of computer.
- Determinant?
- Increase or decrease in supply?

Answer to Practice Problem # 5

- A computer company finds out a competitor is planning to sell a new and improved type of computer.
- Determinant – technology or producers' price expectations
- Increase in supply now because competition will likely lower prices later

Movement Along a Supply Curve Versus a Shift of the Curve

- Remember there is a difference between quantity supplied (Q_s) and supply (S).
- Markets never stand still, there are always outside factors that change the actual price of the good or how much is supplied altogether.
- A change in price creates a change in the quantity supplied (Q_s), other things constant.
 - This causes a movement along the supply curve.
- A change in one of the determinants of supply causes a change in supply (S).
 - This causes in a shift of the supply curve.

Determinants of increased supply change the story..... How so?

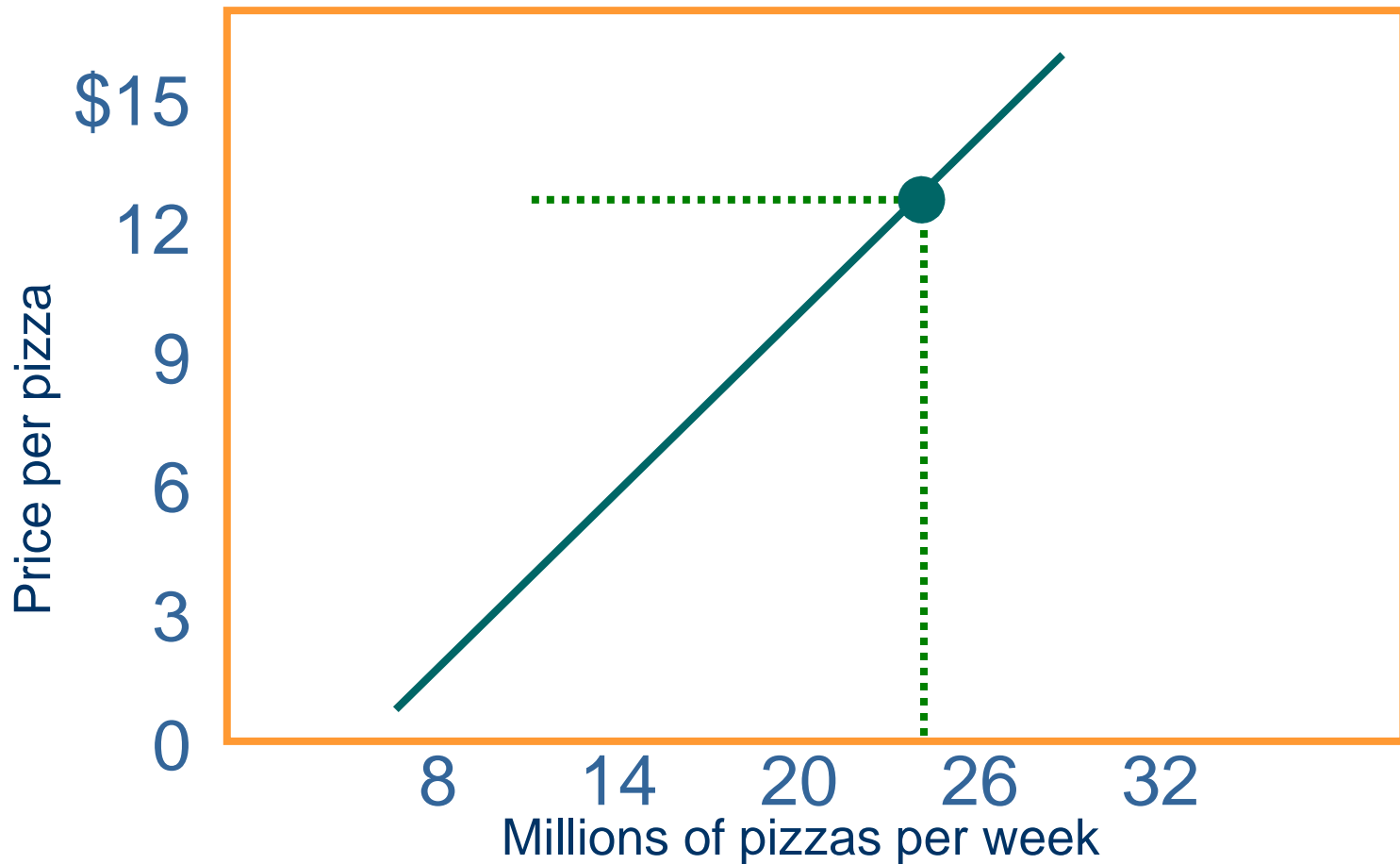
Original Story

Quantity supplied of pizza per week (by millions)	Price of pizza
9	\$3.00
14	\$6.00
19	\$9.00
25	\$12.00
30	\$15.00
---	\$0.00

New Story

Quantity supplied of pizza per week (by millions)	Price of pizza
15	\$3.00
20	\$6.00
25	\$9.00
30	\$12.00
35	\$15.00
---	\$0.00

How would determinants of increased supply change the picture of supply?



How would determinants of increased supply change the picture of supply?

