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.

Law of Supply

- **Law of Supply**
  - As the price of a product rises, producers will be willing to supply more.
  - The height of the supply curve at any quantity shows the ***minimum price*** necessary to induce producers ***to supply*** that next unit to market.
  - The height of the supply curve at any quantity also shows the ***opportunity cost of producing* the *next unit*** of the good.

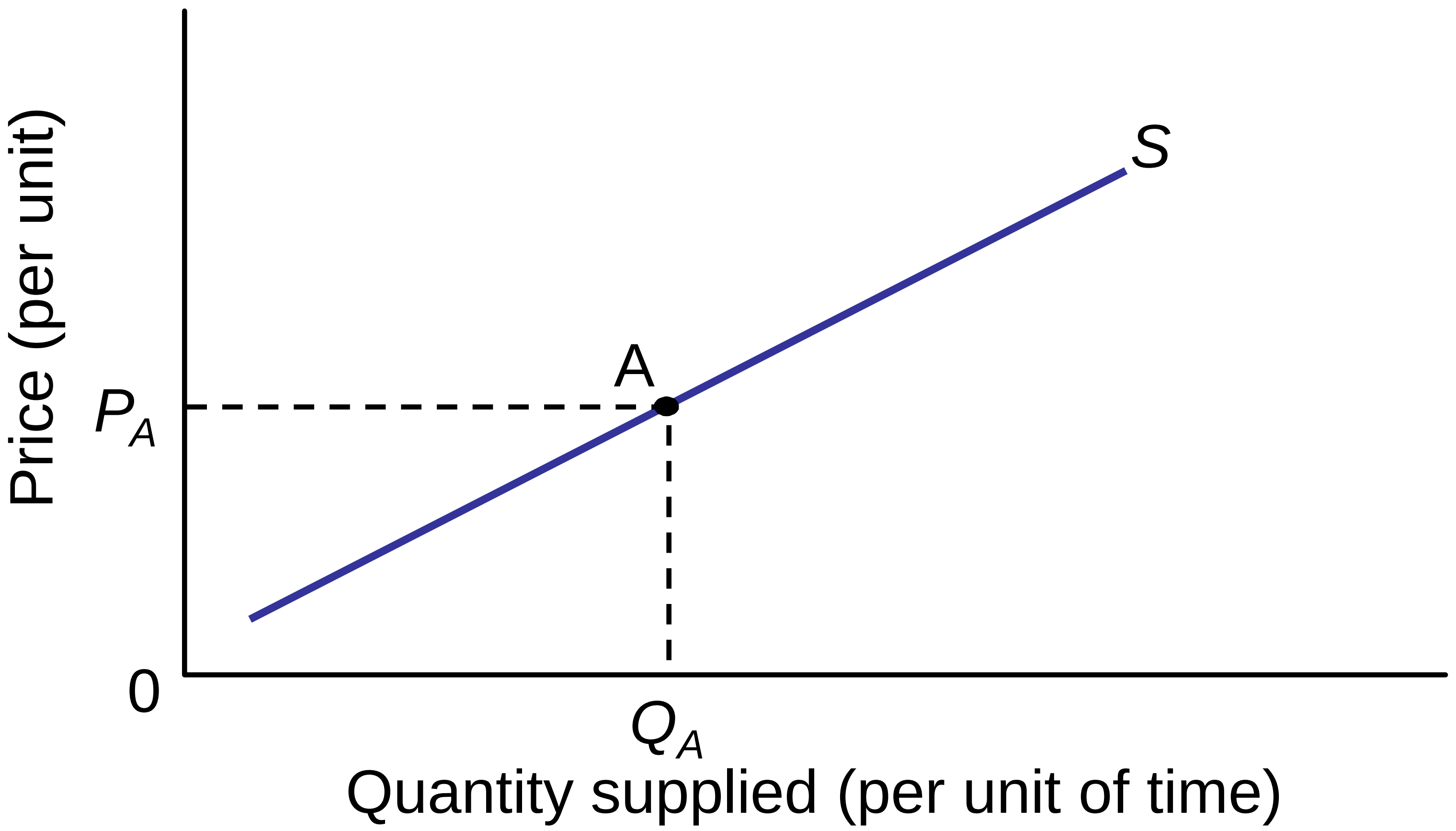
The Law of Supply

- 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.

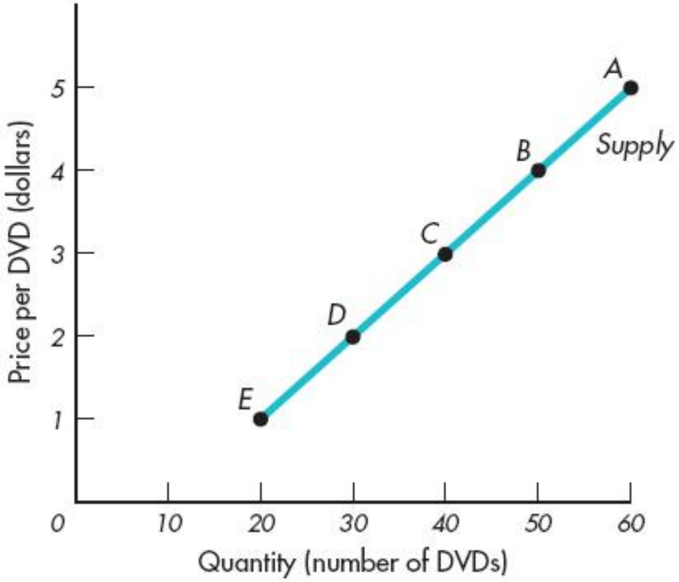
A Sample Supply Curve



Supply Curve DVDs

FIGURE 6 **NetRent's Supply Schedule and Supply Curve for DVDs**

Combination	Price per DVD (constant-quality units)	Quantity Supplied per Week (constant-quality units)
A	$5	60
B	$4	50
C	$3	40
D	$2	30
E	$1	20



The quantity that NetRent is willing and able to offer for sale at each price is listed in the supply schedule and shown on the supply curve. At point *A*, the price is $5 per DVD and the quantity supplied is 60 DVDs. The combination of $4 per DVD and 50 DVDs is point *B*. Each price-quantity combination is plotted, and the points are connected to form the 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.

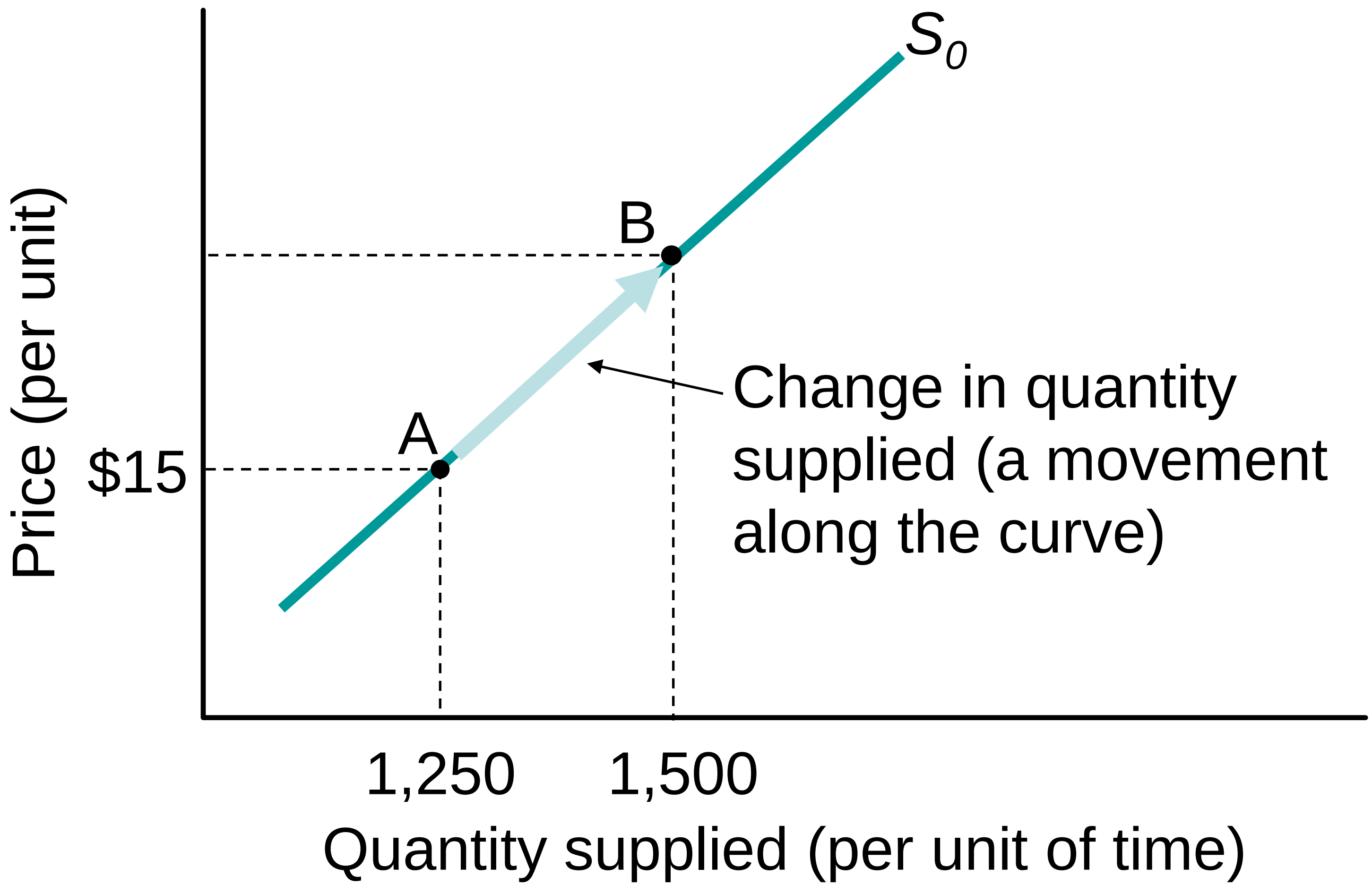
Shifts in Supply Versus Movements Along a Supply Curve

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

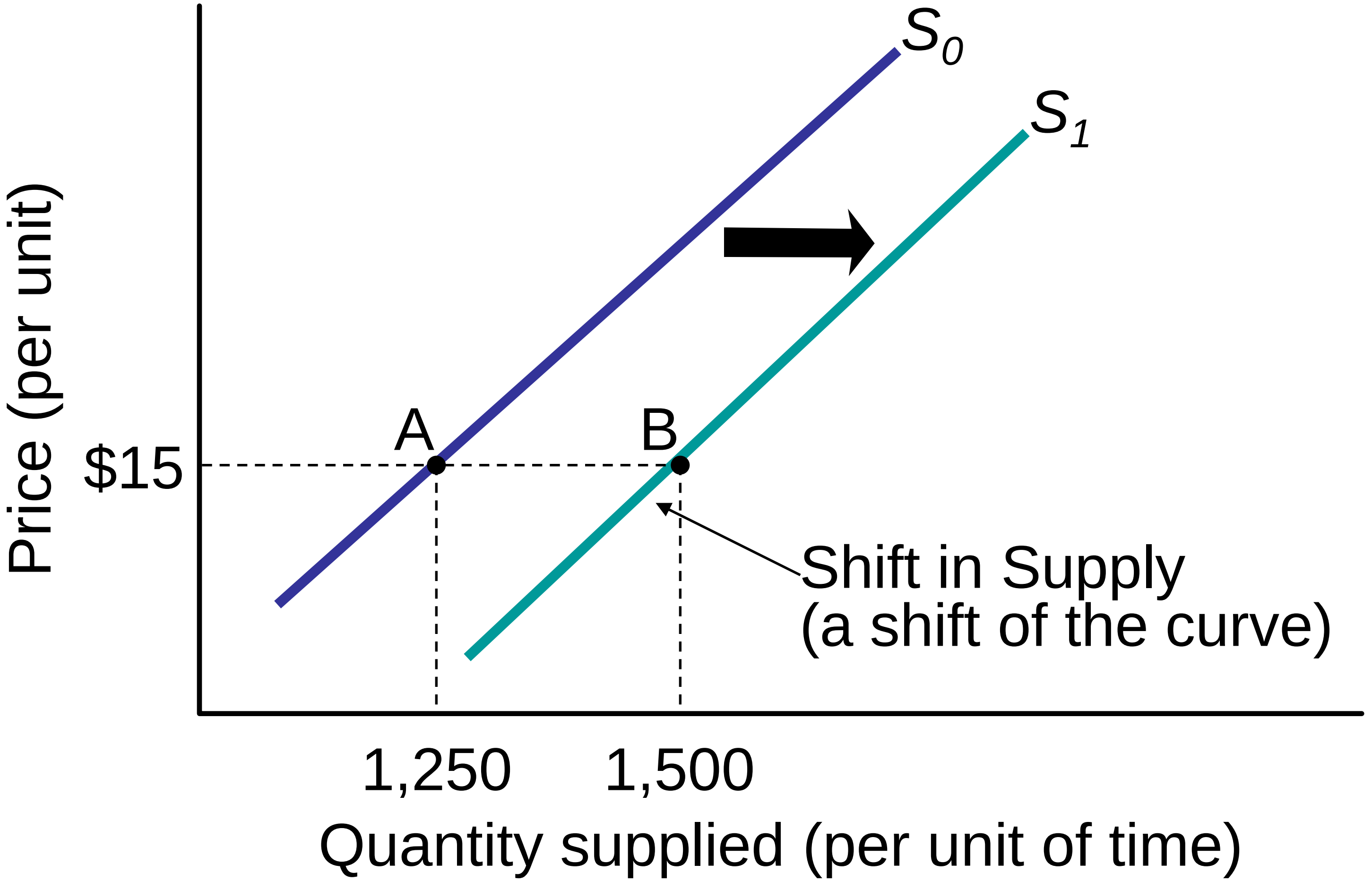
Shifts in Supply Versus Movements Along a Supply Curve

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

Change in Quantity Supplied



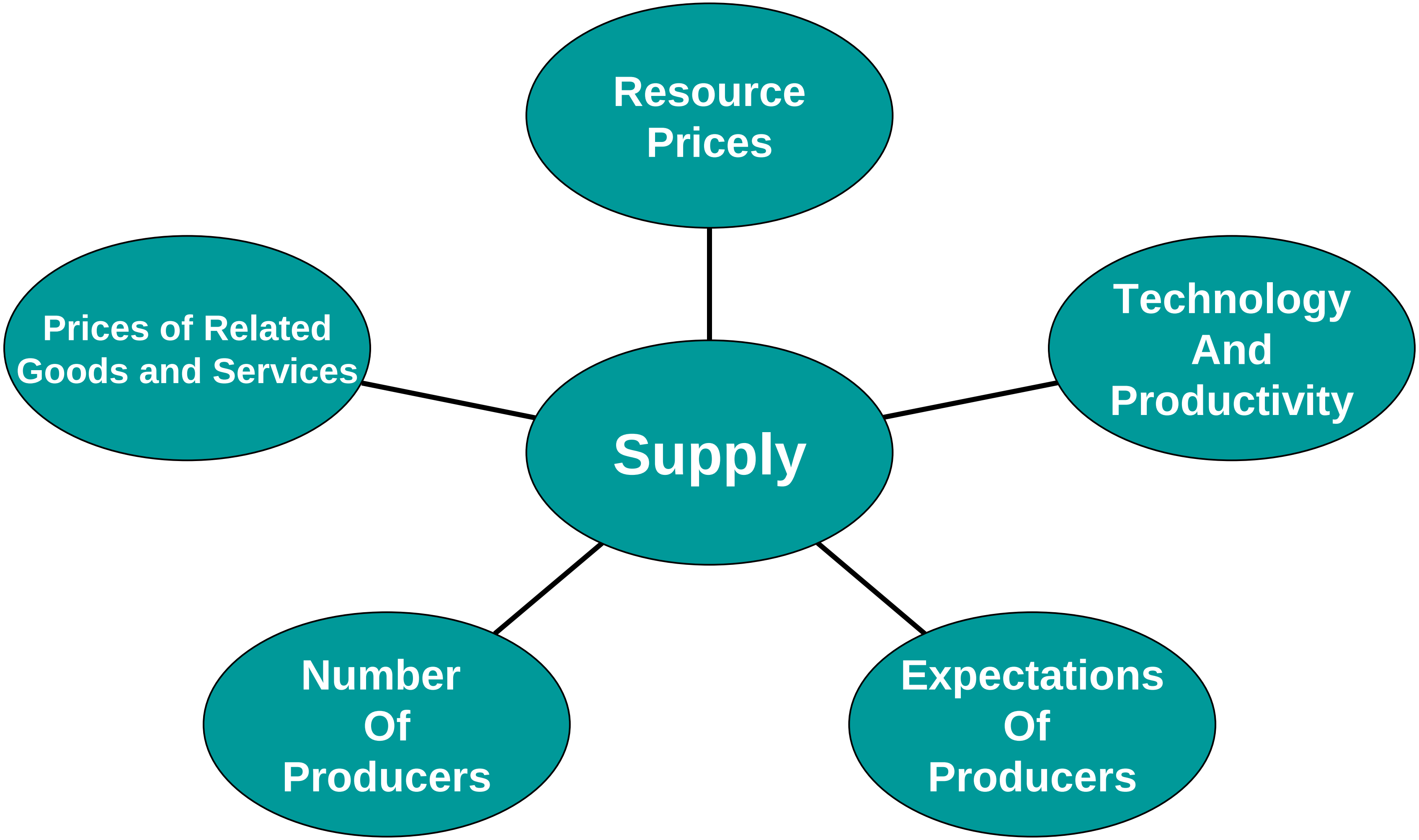
Shift in Supply



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.

Factors that Shift Supply



Price of Inputs (Resource Prices)

- When costs go up, profits go down, so that the incentive to supply also goes 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.

Number of Suppliers

- As more people decide to supply a good the market supply increases (Rightward Shift).

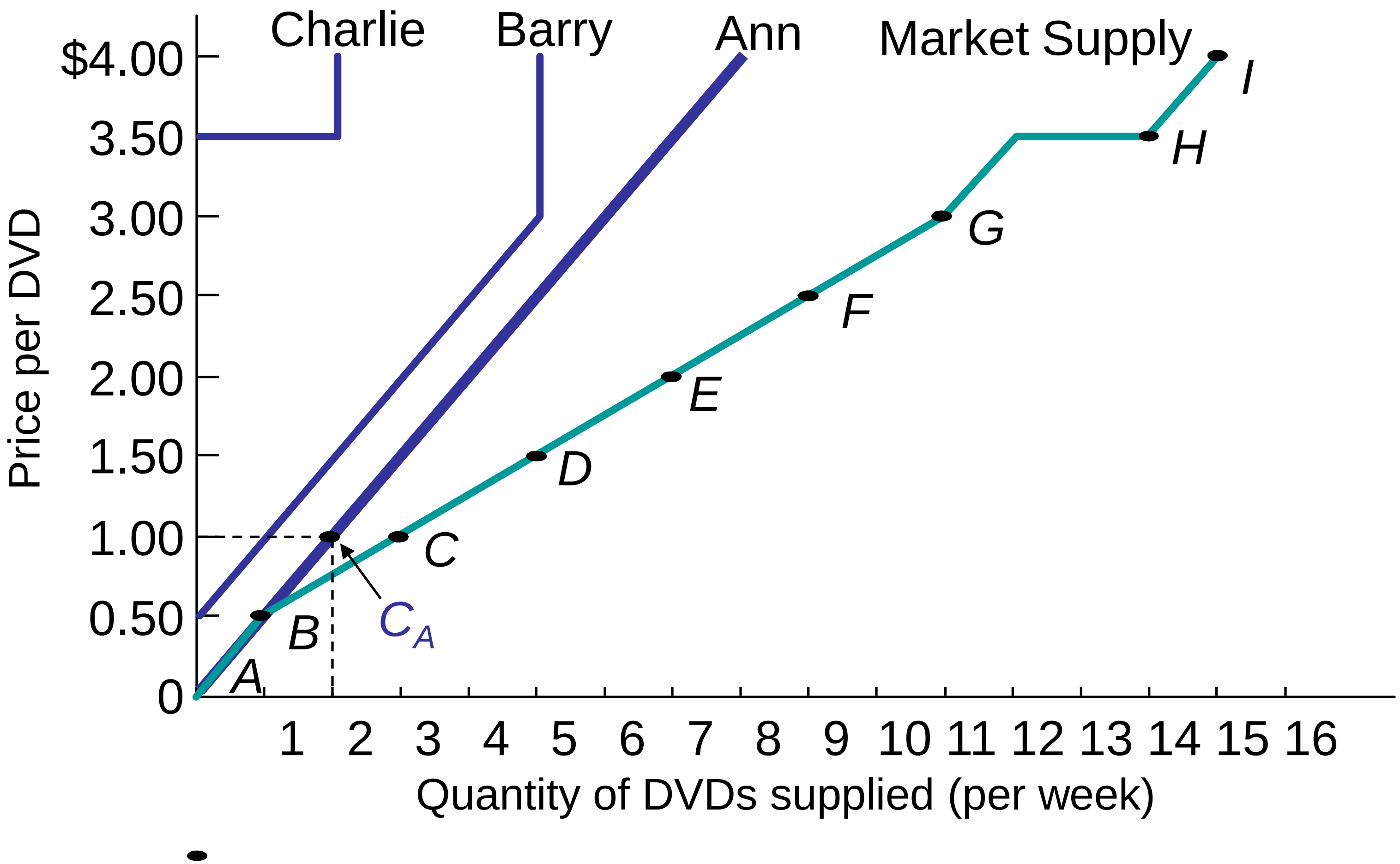
Individual and Market Supply Curves

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

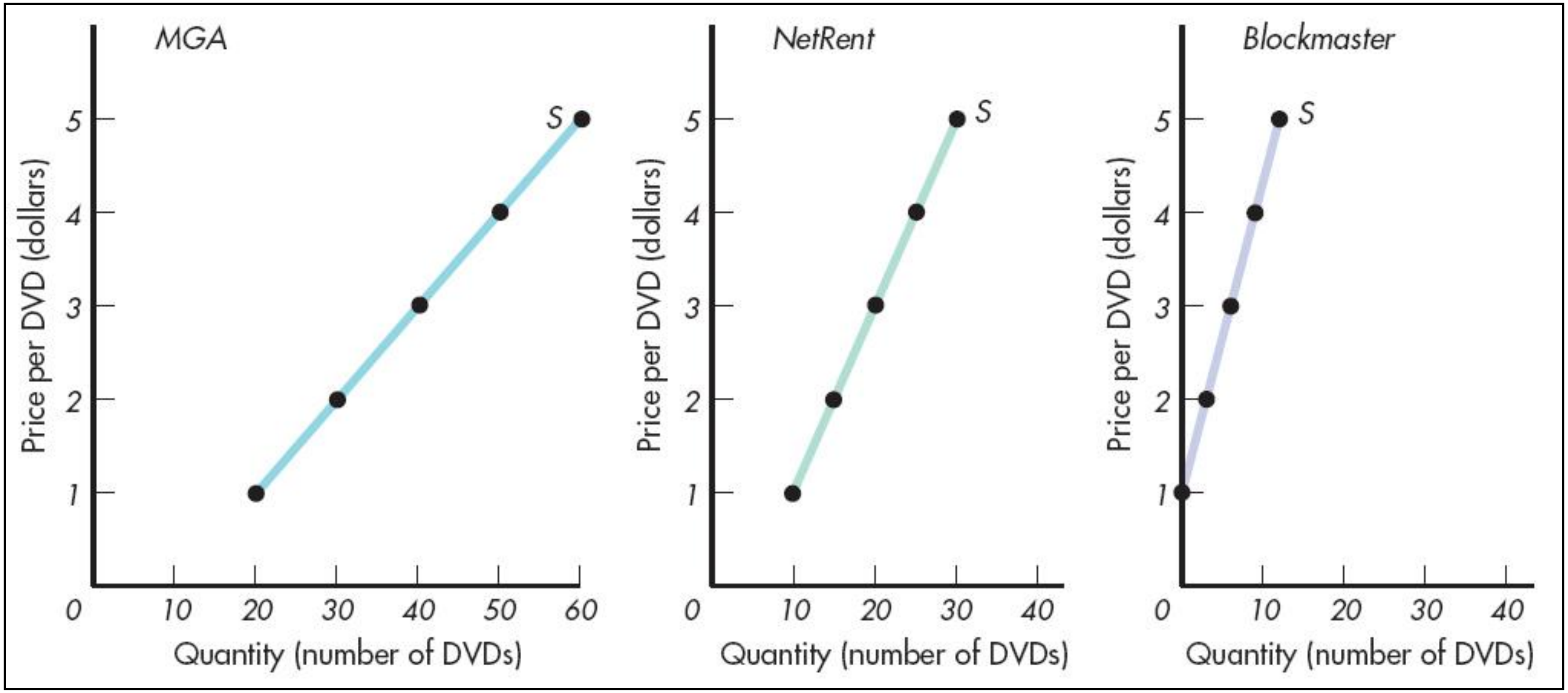
From Individual Supplies to a Market Supply

	(1)	(2)	(3)	(4)	(5)
Quantities Supplied	**Price (per DVD)**	**Ann's Supply**	**Barry's Supply**	**Charlie's Supply**	**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*

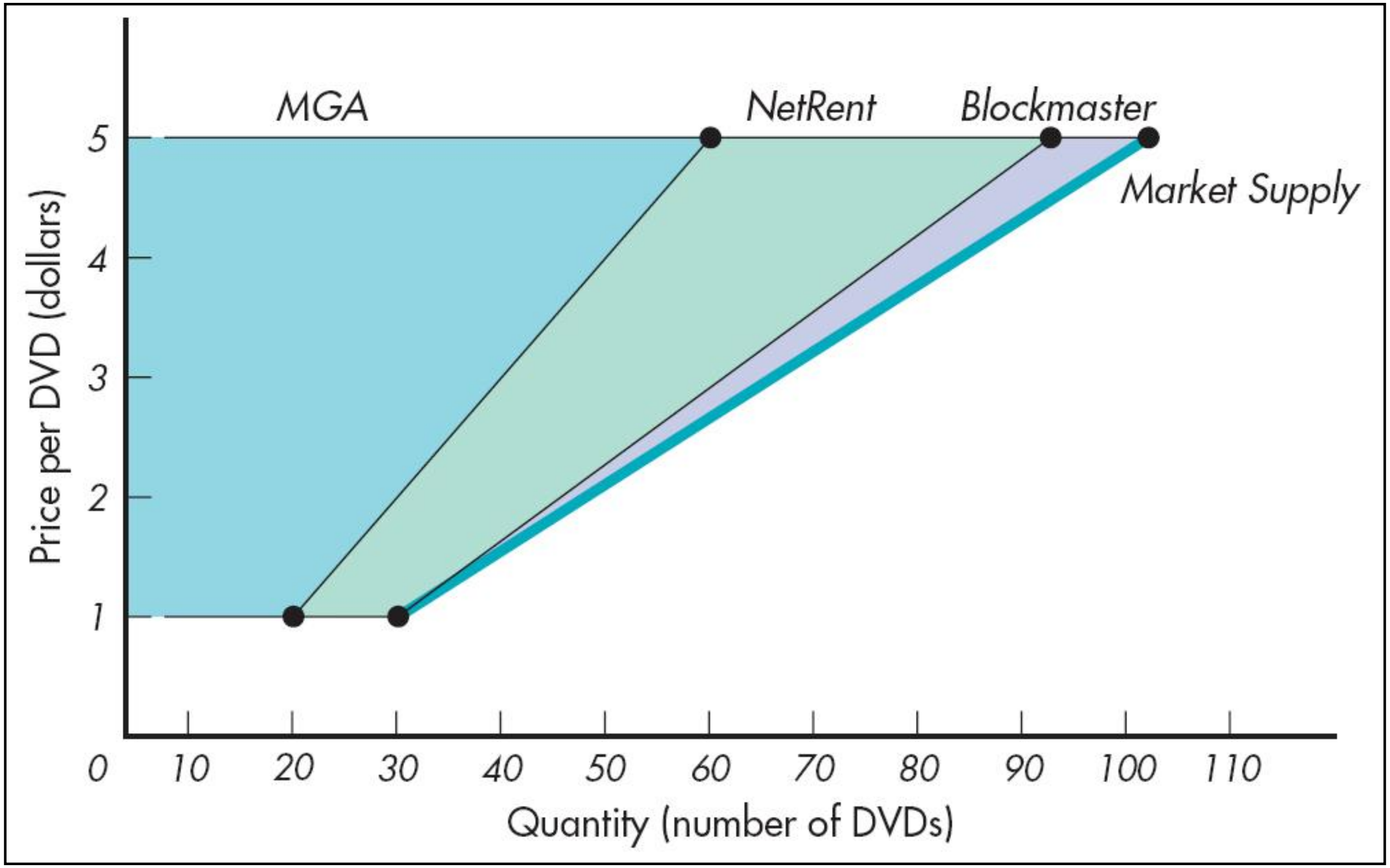
From Individual Supplies to a Market Supply



Aggregation of Supply (I)



Aggregation of Supply (II)



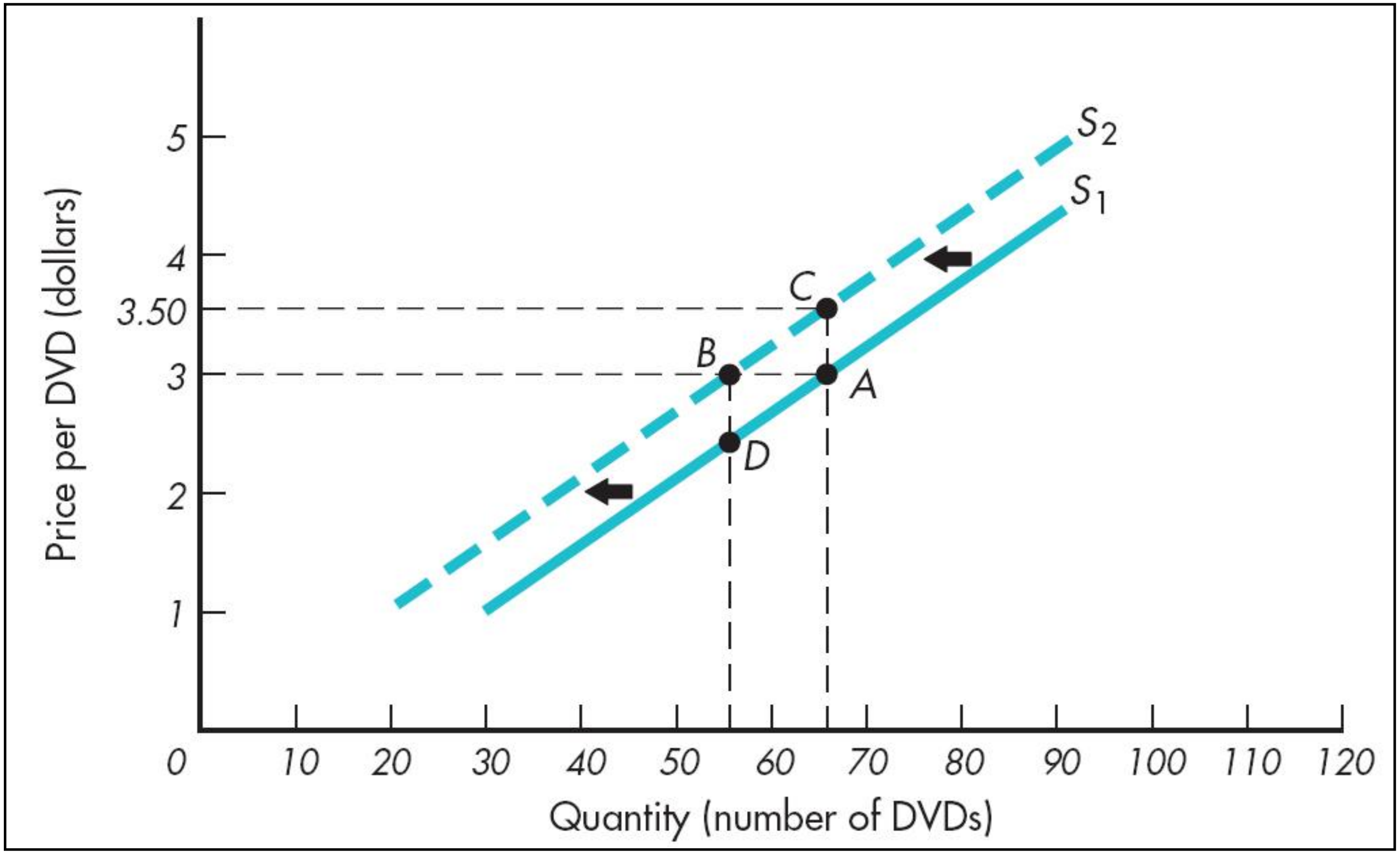
Price of Related Goods or Services

- The opportunity cost of producing and selling any good is the forgone opportunity to produce another good.
- If the price of alternate good changes then the opportunity cost of producing changes too!
- Example Mc Don selling Hamburgers vs. Salads.

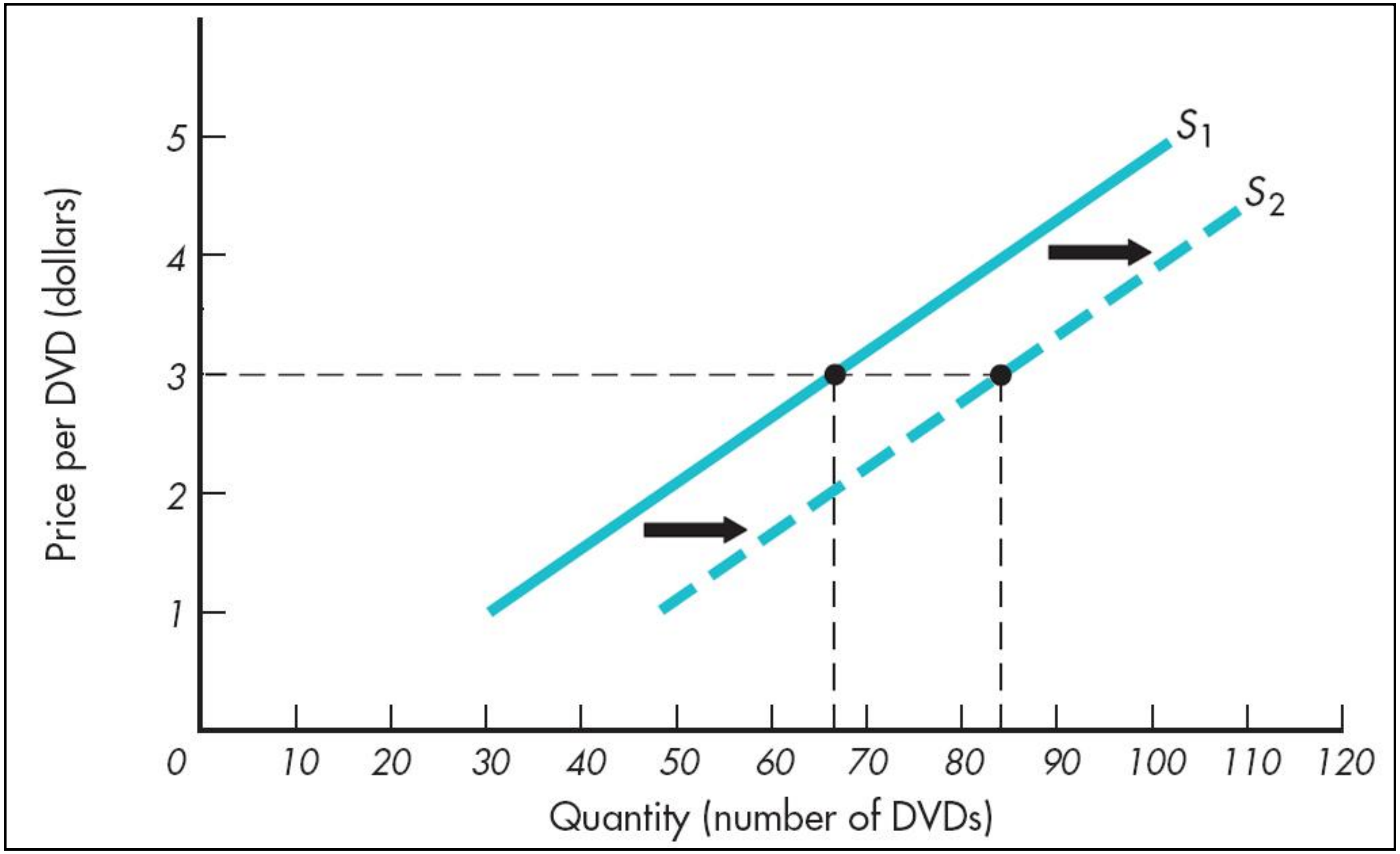
Taxes and Subsidies

- 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.

Decrease in Supply

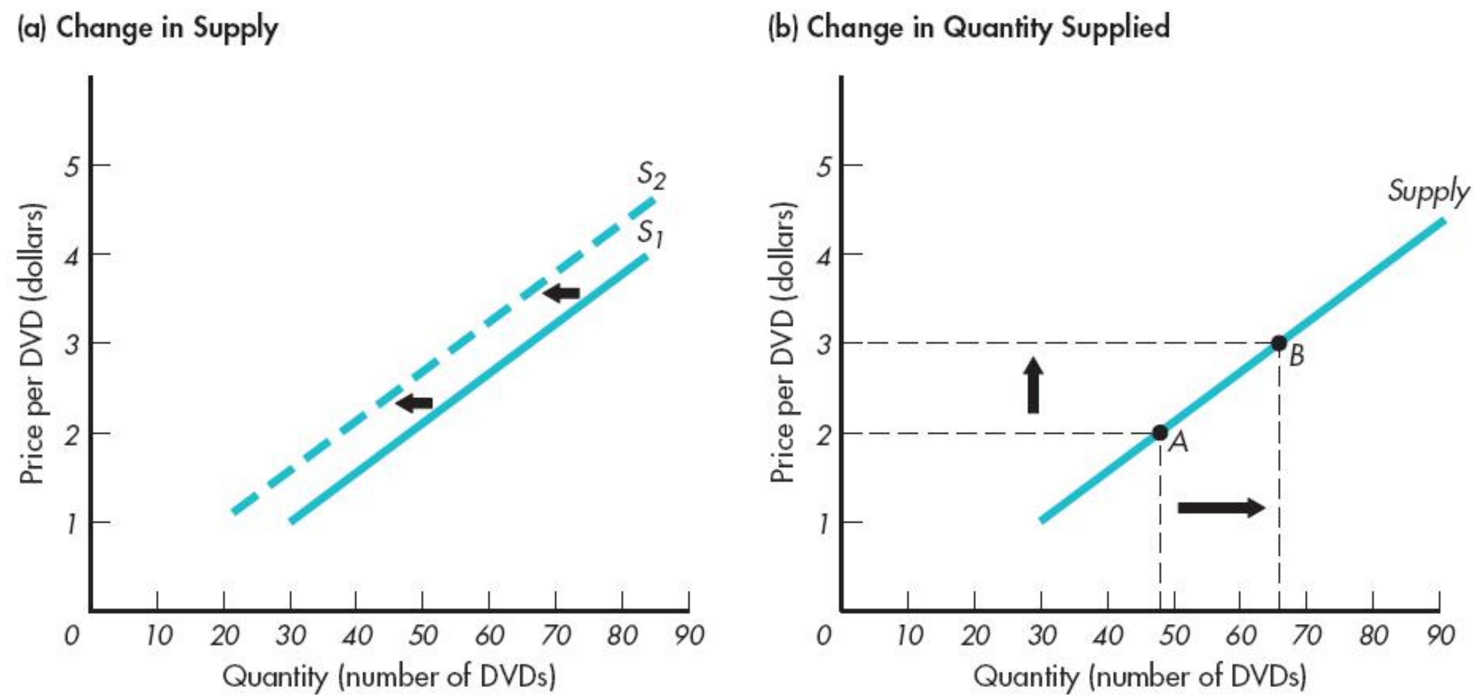


Increase in Supply



Change in Supply vs. a Change in the Quantity Supplied

FIGURE 9 **A Change in Supply and a Change in the Quantity Supplied**



In Figure 9(a), the quantities that producers are willing and able to offer for sale at every price decrease, causing a leftward shift of the supply curve from S_1 to S_2. In Figure 9(b), the quantities that producers are willing and able to offer for sale increase, because of an increase in the price of the good, causing a movement along the supply curve from point *A* to point *B*.