Supply

■ Law of Supply
■ The Supply Schedule and the Supply Curve
■ Changes in Quantity Supplied
■ Changes in Supply
■ Some Examples

Changes in Demand and Quantity Demanded

Supply

A firm’s production technology is the set of methods it can use to turn inputs (resources and raw materials) into outputs (goods or services).

Firm’s Quantity Supplied

A firm’s quantity supplied of any good is the amount it would choose to produce and sell at a particular price.

Supply

When a competitive firm comes to a market as a seller, it wants to make the highest possible profit. Firms can choose the level of output they want to produce, but face three constraints:

■ Their production technology
■ The prices they must pay for their inputs
■ The market price of their output
Market Quantity Supplied

Total amount of a good or service that all producers in a market would choose to produce and sell at a given price

Law of Supply

As the price of a good increases, the quantity supplied increases

The Supply Schedule and the Supply Curve

Supply schedule: a list showing the quantities of a good or service that firms would choose to produce and sell at different prices, with all other variable held constant

Supply curve: a graphical depiction of a supply schedule

The Supply Schedule and the Supply Curve

Demand vs. Quantity Demanded

Change in Quantity Demanded = movement along the demand curve

Change in Demand = movement of the entire demand curve

Changes in Quantity Supplied and Supply

Change in quantity supplied: movement along a supply curve in response to a change in price

Change in supply: shift of a supply curve in response to some variable other than price
Supply schedule before and after a decrease in the price of labor (lower labor costs shifts supply to the right)

<table>
<thead>
<tr>
<th>Price per Bottle</th>
<th>Quantity Supplied (Bottles/Month)</th>
<th>Quantity Supplied After Increase in Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.00</td>
<td>2,500</td>
<td>4,000</td>
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<tr>
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<tr>
<td>5.00</td>
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<td>8,500</td>
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</tbody>
</table>

Changes in Quantity Supplied and Supply

Prices of Inputs

- A rise in price of an input causes a decrease in supply that shifts the supply curve to the left
- A fall in price of an input causes an increase in supply that shifts the supply curve to the right

Profitability of Alternate Goods

Alternate goods: other goods a firm could produce using some of the same kinds of inputs as the original good

- When an alternate good becomes more profitable to produce because
  - its price rises
  - the cost of producing it falls
  - the supply curve for the original good will shift leftward

Technology

Cost-saving technological advances increase the supply of a good, shifting the supply curve to the right
Productive Capacity

- An increase in productive capacity shifts the supply curve rightward.
- A decrease in productive capacity shifts the supply curve leftward.

Expectation of Future Prices

A rise in the expected price of a good will decrease the supply, shifting the supply curve leftward.

- Decrease current supply to take advantage of higher prices later.

Movements along the supply curve and shifts in supply

Putting Supply and Demand Together

- How do we find the equilibrium prices and quantities?
- Use the concept of equilibrium
- What happens when price is above or below the equilibrium price?