LECTURE 7: SUPPLY

ECO101: Introduction to microeconomics

BRAC University

SUPPLY SCHEDULE AND SUPPLY CURVE

- A ***supply schedule*** is a table showing how much of a product firms(producers) will supply at different prices.
- The ***supply curve*** is a graph illustrating how much of a given product firms(producers) would be willing to sell at different prices.

SUPPLY SCHEDULE AND SUPPLY CURVE

Price	Quantity Supplied per Month
$15	5,000
12	4,000
9	3,000
6	2,000
3	1,000

Supply schedule **Supply curve**

SUPPLY VS QUANTITY SUPPLIED

- Supply is not the same as Quantity supplied.
- Supply **refers to the curve**, and quantity supplied **refers to a specific point on the curve**.

THE LAW OF SUPPLY

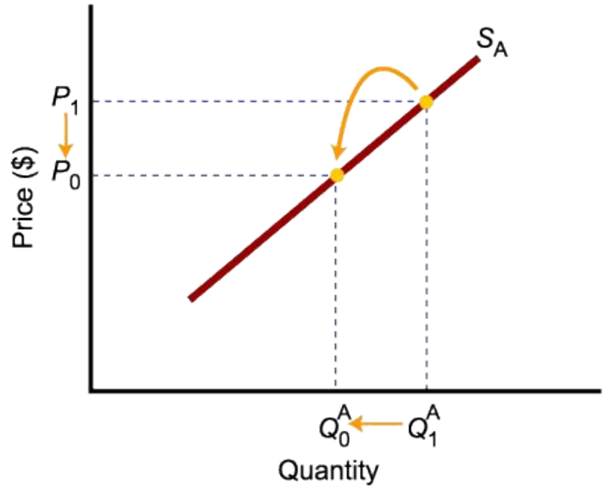
- The ***law of supply*** states that there is a positive relationship between price and quantity of a good supplied.
- This means that supply curves typically have a positive slope.

$$\uparrow P \longrightarrow \uparrow Q_s$$

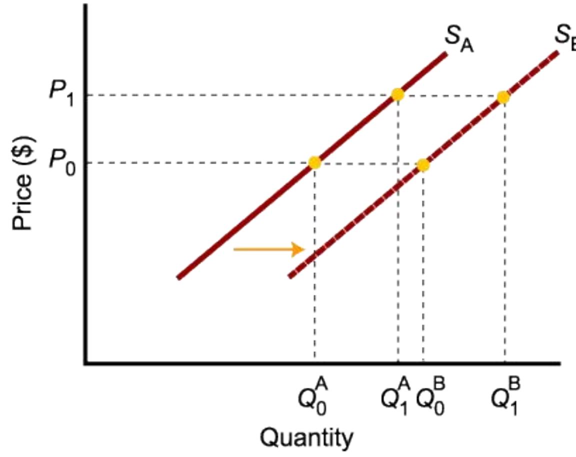
$$\uparrow P \longrightarrow \uparrow Q_s$$

MOVEMENT ALONG THE CURVE VS. SHIFT IN THE SUPPLY CURVE

Change in price of a good or service leads to a change in *quantity supplied* (**Movement along the curve**).



Change in costs, input prices, technology, or prices of related goods and services leads to a change in supply (**Shift of curve**).

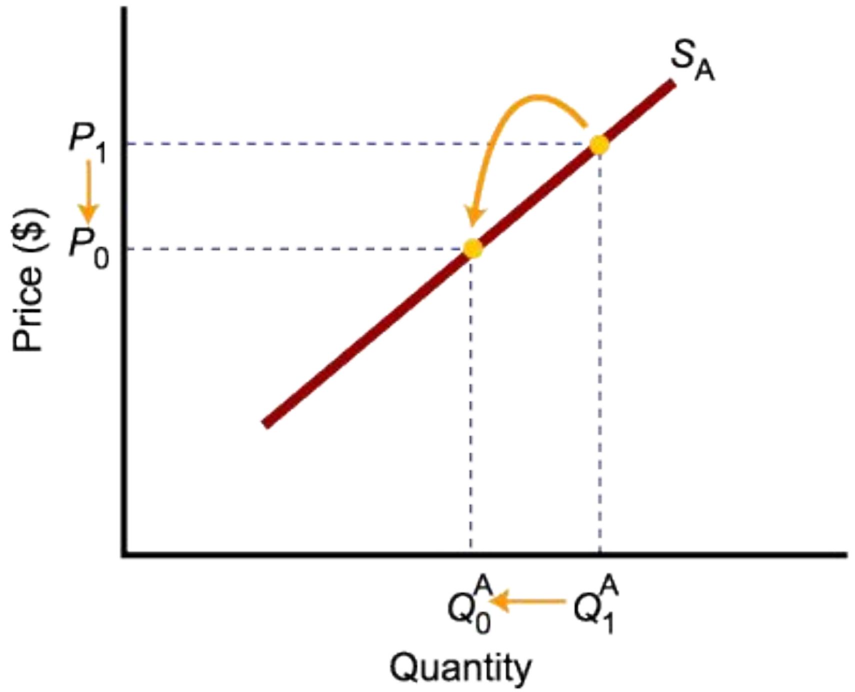


DETERMINANTS OF SUPPLY

- The ***price*** of the good or service.
- The ***cost*** of producing the good, which in turn depends on:
  - Price of Inputs (labor, capital, and land),
  - Technology
- Expectations
- Government Policy (Taxes, Subsidies and Regulations)
- Competition

PRICE

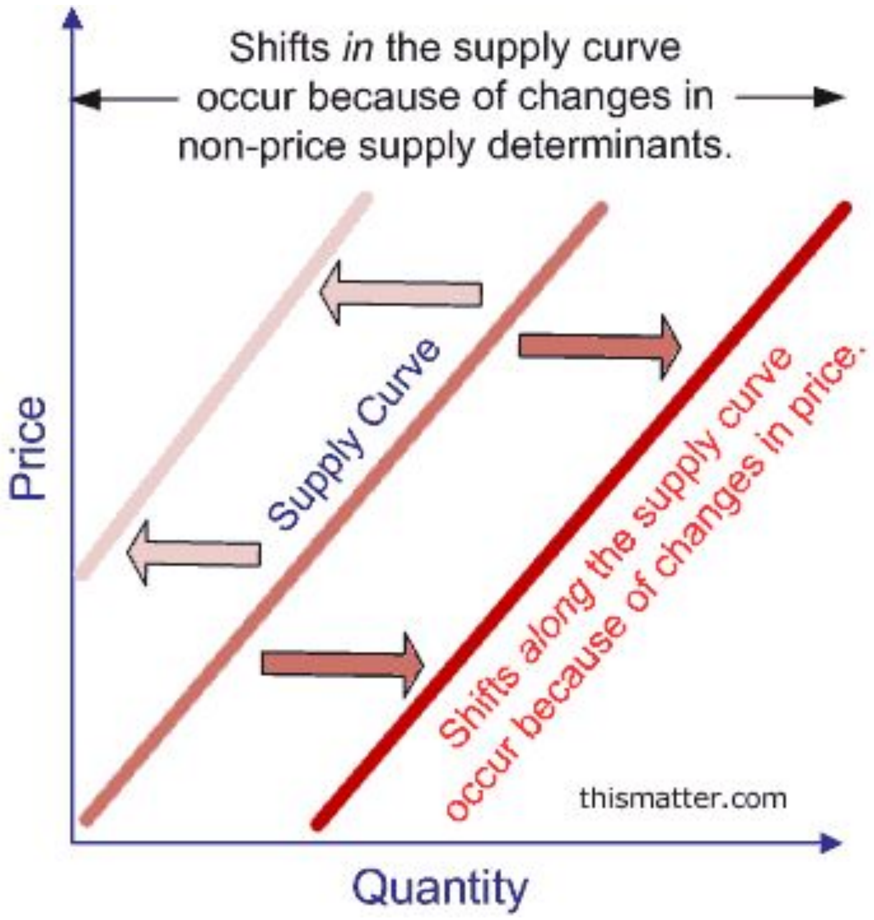
A change in price causes a movement along the supply curve



SHIFT FACTORS OF SUPPLY

A **right** shift means an **increase** in Supply

A **left** shift means a **decrease** in Supply



SHIFT FACTORS OF SUPPLY

Price of Inputs (labor, capital, and land)

- If input costs rise with no change in output, profits will decline, and a firm has less incentive to supply and vice-versa.

SHIFT FACTORS OF SUPPLY

Technology

- New technology can **reduce the costs of production**, leading to an increase in supply

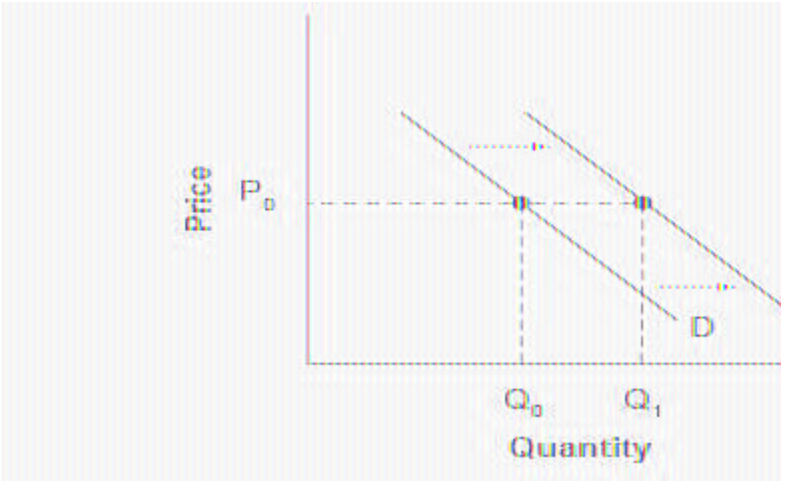
SHIFT FACTORS OF SUPPLY

Expectations

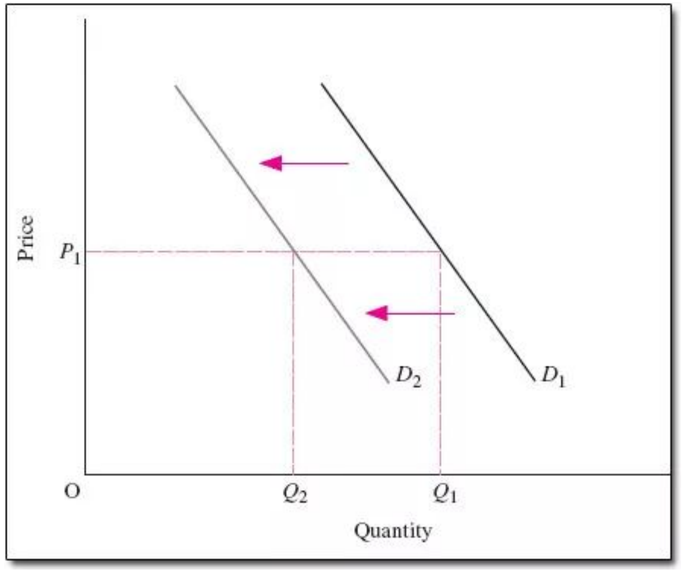
- Supplier expectations are an important factor in the production decision.
- If a supplier expects the price of the good to rise at some time in the future, it may store some of today's supply to sell it later and reap higher profits, decreasing supply now and increasing it later.

INCOME

- Normal Goods – For normal goods demand increases with an increase in income or vice-versa.



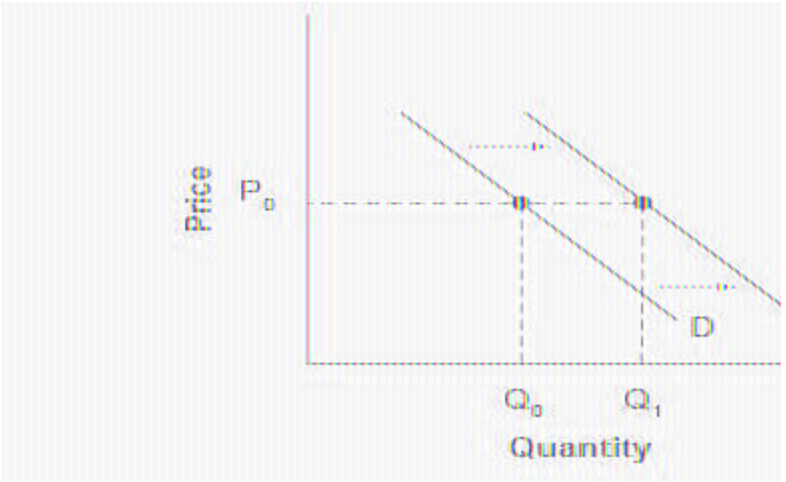
Higher income => higher demand



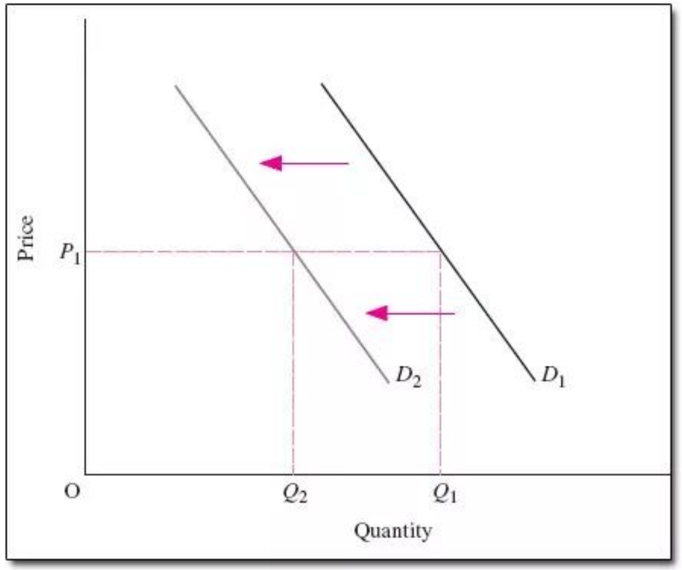
Lower income => lower demand

INCOME

- Inferior Goods –For inferior goods demand decreases with an increase in income or vice-versa.



Lower income => higher demand



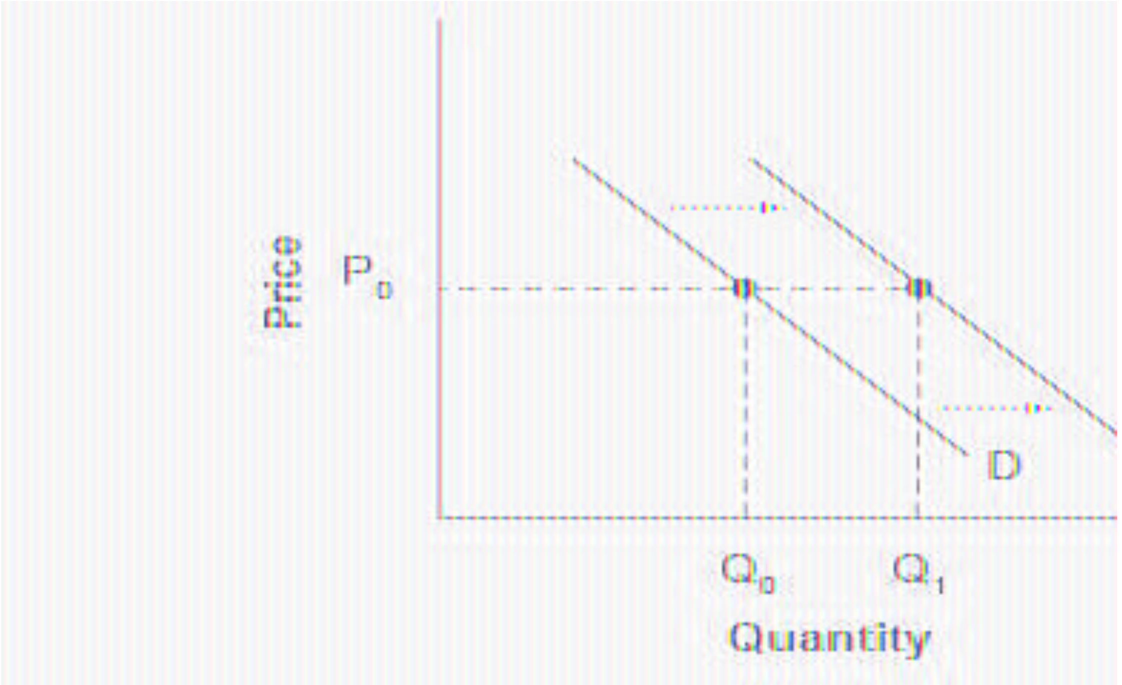
Higher income => lower demand

PRICES OF RELATED GOODS

- Changes in the prices of related goods can increase or decrease demand.
- Substitute Goods: Two goods are substitute goods if an increase in price of one good causes an increase in the demand for another good.
- Complementary Goods: Two goods are complementary goods if an increase in price of one good causes a decrease in the demand for another good.

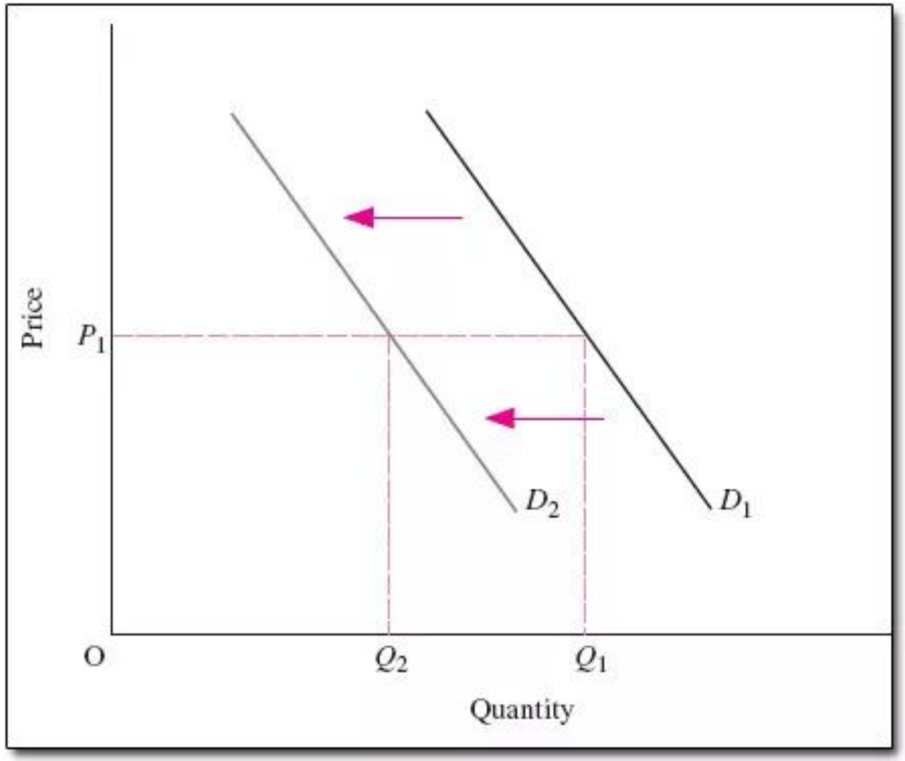
PRICES OF RELATED GOODS

- Substitute Goods: $P_1 \uparrow Q_1^d \downarrow D_2 \uparrow$



- Two goods: good 1 and good 2.
- P_1 : Price of good 1
- Q_1^d: Quantity demanded of good1.
- D_2: Demand for good 2

PRICES OF RELATED GOODS

- Complementary Goods: $P_1 \Uparrow Q_1^d \Downarrow D_2 \Downarrow$
- 

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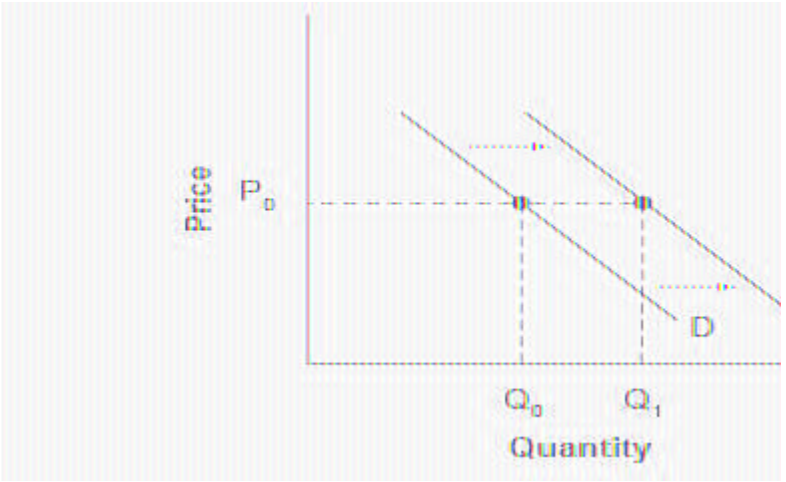
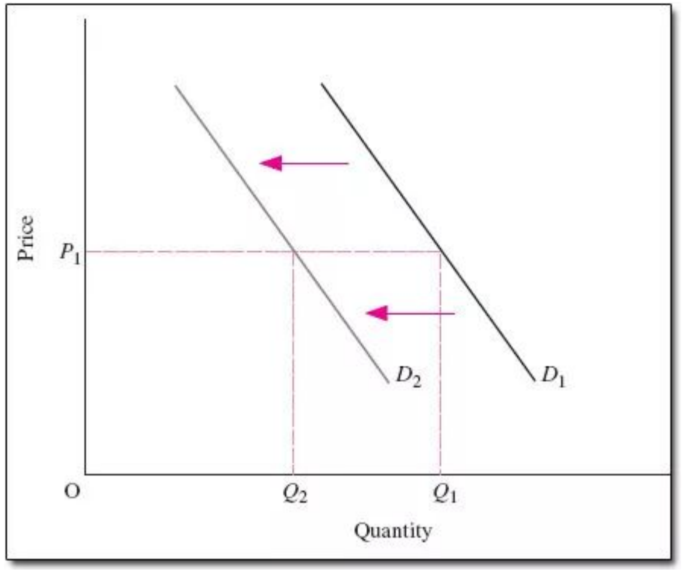
TASTES AND PREFERENCES

- Demand curve can shifts due to changes in tastes over time.



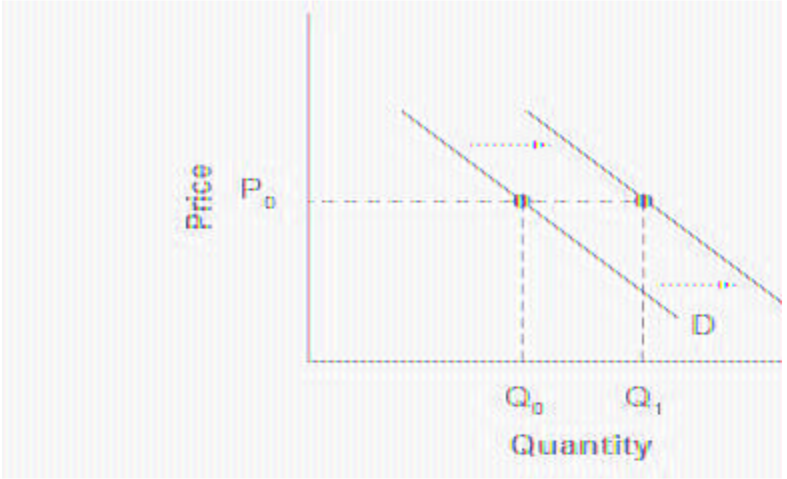
Favorable change in taste => higher demand



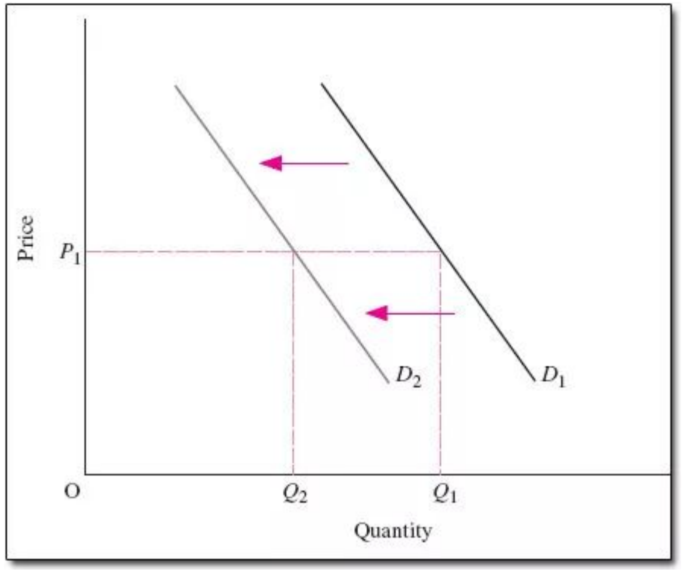
Unfavorable change in taste => lower demand

EXPECTATIONS ABOUT FUTURE PRICES AND MARKET CONDITIONS

- Demand curve can shifts due to changes in expectations.
- For example, if you expect the price of computers to fall soon, you may put off buying one until later.



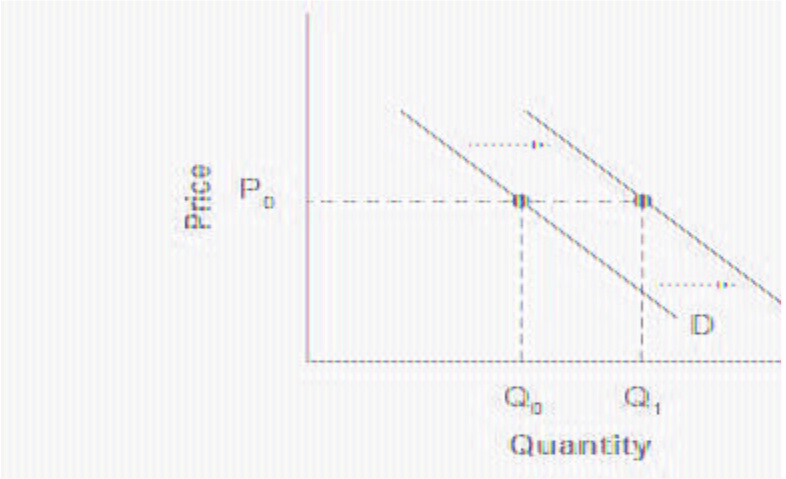
Positive expectation=> higher demand



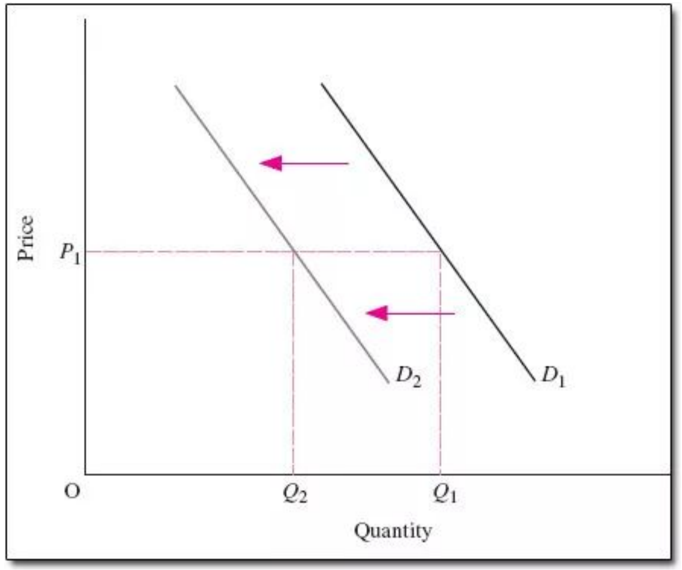
Negative expectation=> lower demand

POPULATION/ NO OF CONSUMERS

- Demand curve can shifts due to changes in population/ no of consumers.



Increase in population/no of consumers => higher demand



decrease in population/no of consumers => lower demand