ECO101: Introduction to Microeconomics

LECTURER: ADDRITA SHAMS

SECTION: 11

WEEK 02, LECTURE 04

TOPIC: SUPPLY

Supply

- If a firm supplies a good or service, the firm
  1. Has the resources and technology to produce it,
  2. Can profit from producing it, and
  3. Plans to produce it and sell it.
- The **quantity supplied** of a good or service is the amount that producers plan to sell during a given time period at a particular price.
- The quantity supplied is not necessarily the same amount as the quantity actually sold. Sometimes the quantity supplied is greater than the quantity demanded, so the quantity sold is less than the quantity supplied.

The Law of Supply

- The **law of supply** states:

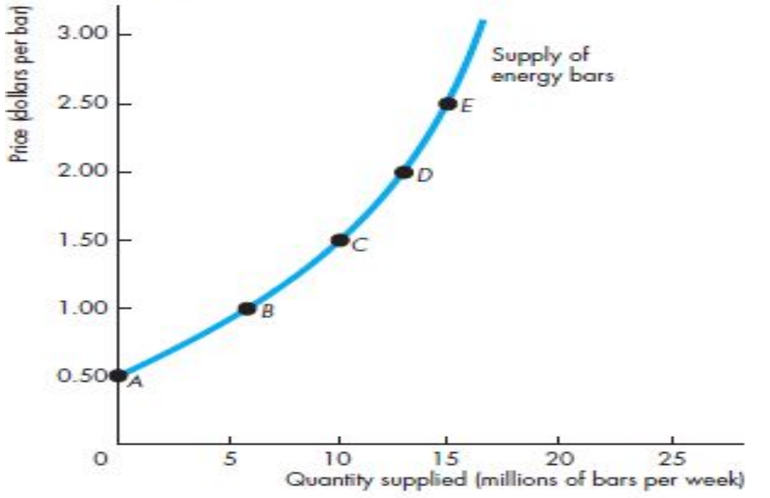
  Other things remaining the same, the higher the price of a good, the greater is the quantity supplied; and the lower the price of a good, the smaller is the quantity supplied.

- Why does a higher price increase the quantity supplied? It is because *marginal cost increases.* As the quantity produced of any good increases, the marginal cost of producing the good increases.
- It is never worth producing a good if the price received for the good does not at least cover the marginal cost of producing it. When the price of a good rises, other things remaining the same, producers are willing to incur a higher marginal cost, so they increase production. The higher price brings forth an increase in the quantity supplied.

Supply Curve and Supply Schedule

- The term **supply** refers to the entire relationship between the price of a good and the quantity supplied of it.
- Supply is illustrated by the supply curve and the supply schedule.
- The term *quantity supplied* refers to a point on a supply curve—the quantity supplied at a particular price.
- A **supply curve** shows the relationship between the quantity supplied of a good and its price when all other influences on producers' planned sales remain the same.
- A *supply schedule* lists the quantities supplied at each price when all the other influences on producers' planned sales remain the same.
- The supply curve can be interpreted as a minimum-supply-price curve—a curve that shows the lowest price at which someone is willing to sell. This lowest price is the *marginal cost.*

FIGURE 3.4 The Supply Curve



	Price (dollars per bar)	Quantity supplied (millions of bars per week)
A	0.50	0
B	1.00	6
C	1.50	10
D	2.00	13
E	2.50	15

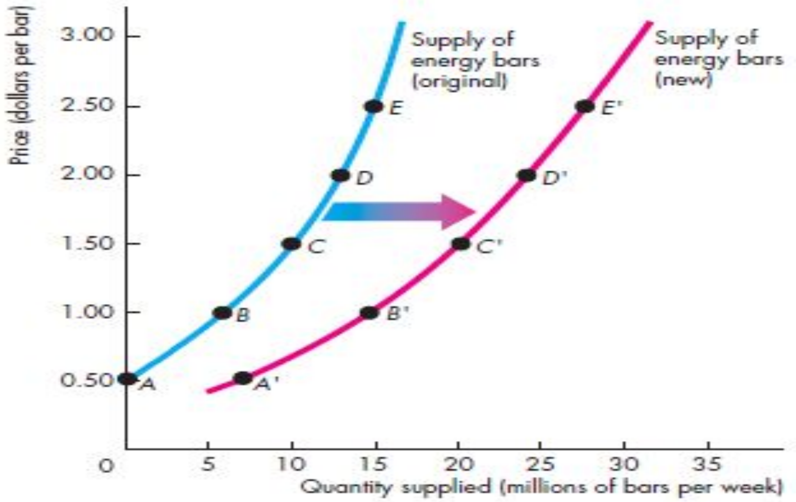
A Change in Supply

- When any factor that influences selling plans other than the price of the good changes, there is a **change in supply**. Six main factors bring changes in supply.
- They are changes in
  - The prices of factors of production :
  - The prices of related goods produced
  - Expected future prices
  - The number of suppliers
  - Technology
  - The state of nature

A Change in the Quantity Supplied versus a Change in Supply

- Changes in the influences on selling plans bring either a change in the quantity supplied or a change in supply.
- Equivalently, they bring either a movement along the supply curve or a shift of the supply curve.
- A point on the supply curve shows the quantity supplied at a given price. A movement along the supply curve shows a ***change in the quantity supplied***.
- The entire supply curve shows supply. A shift of the supply curve shows a ***change in supply***.
- If the price of the good changes and other things remain the same, there is a *change in the quantity supplied* of that good.

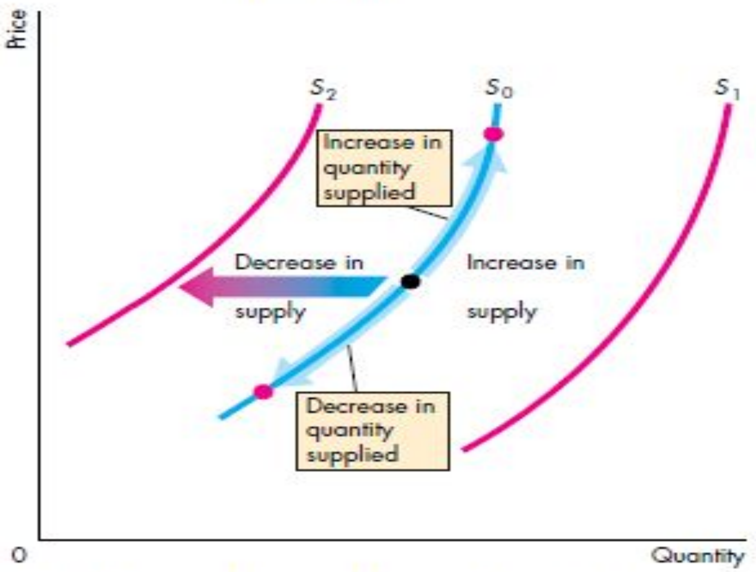
FIGURE 3.5 An Increase in Supply



Original supply schedule Old technology			New supply schedule New technology		
	Price (dollars per bar)	Quantity supplied (millions of bars per week)		Price (dollars per bar)	Quantity supplied (millions of bars per week)
A	0.50	0	A'	0.50	7
B	1.00	6	B'	1.00	15
C	1.50	10	C'	1.50	20
D	2.00	13	D'	2.00	25
E	2.50	15	E'	2.50	27

Factors affecting Supply

FIGURE 3.6 A Change in the Quantity Supplied Versus a Change in Supply



When the price of the good changes, there is a movement along the supply curve and *a change in the quantity supplied*, shown by the blue arrows on supply curve S_0. When any other influence on selling plans changes, there is a shift of the supply curve and a *change in supply*. An increase in supply shifts the supply curve rightward (from S_0 *to* S_1), and a decrease in supply shifts the supply curve leftward (from S_0 *to* S_2).

TABLE 3.2 The Supply of Energy Bars

The Law of Supply

The quantity of energy bars supplied

Decreases if:	*Increases if:*
■ The price of an energy bar falls	■ The price of an energy bar rises

Changes in Supply

The supply of energy bars

Decreases if:	*Increases if:*
■ The price of a factor of production used to produce energy bars rises	■ The price of a factor of production used to produce energy bars falls
■ The price of a substitute in production rises	■ The price of a substitute in production falls
■ The price of a complement in production falls	■ The price of a complement in production rises
■ The expected future price of an energy bar rises	■ The expected future price of an energy bar falls
■ The number of suppliers of bars decreases	■ The number of suppliers of bars increases
■ A technology change decreases energy bar production	■ A technology change increases energy bar production
■ A natural event decreases energy bar production	■ A natural event increases energy bar production

Market Equilibrium

- An *equilibrium* is a situation in which opposing forces balance each other. Equilibrium in a market occurs when the price balances buying plans and selling plans.
- The **equilibrium price** is the price at which the quantity demanded equals the quantity supplied.
- The **equilibrium quantity** is the quantity bought and sold at the equilibrium price.
- A market moves toward its equilibrium because
  - Price regulates buying and selling plans.
  - Price adjusts when plans don’t match.

Next Class: Market Equilibrium