

Student response

Explain the relationship between price and quantity supplied. In your answer you should:

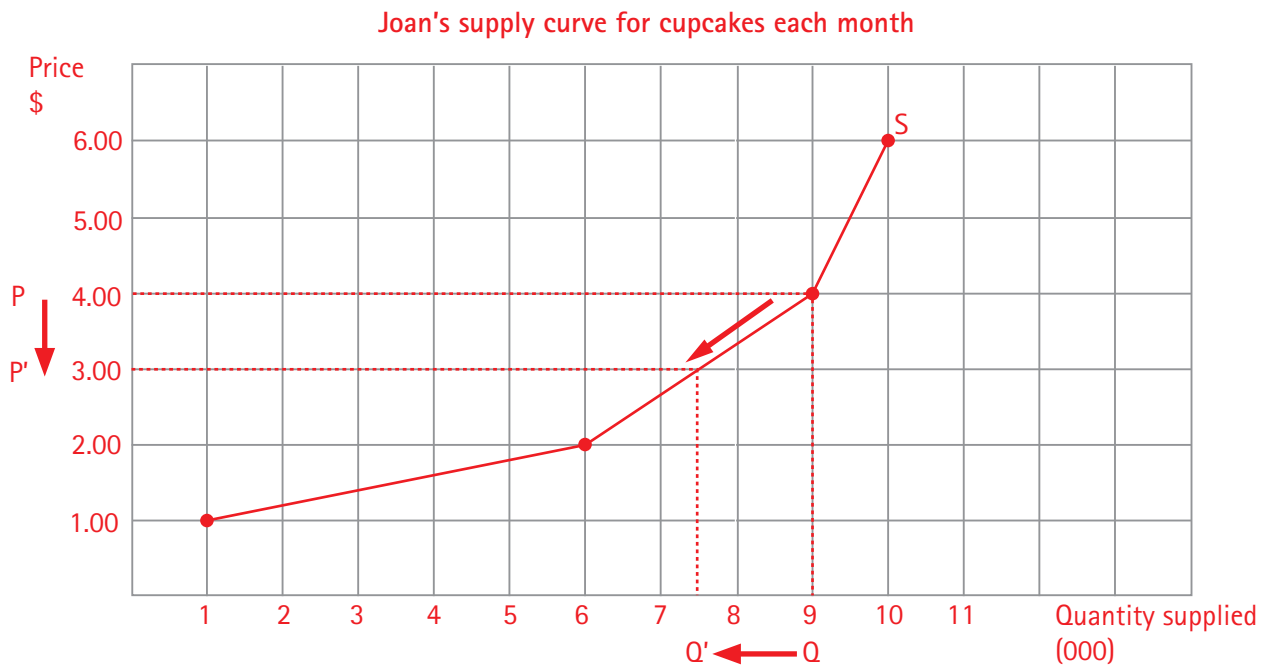
- describe what is meant by 'supply'
- draw a supply curve using the schedule opposite and the grid provided
- show a price decrease from \$4.00 per cupcake of 25% and give reasons for the change in the quantity of cupcakes supplied
- explain several flow-on effects of the price change for Joan.

Joan's supply schedule for cupcakes each month	
Price (\$)	Quantity supplied (000)
1.00	1
2.00	6
3.00	9
6.00	10

[illegible][illegible]

eLearneconomics: Supply (1a)

Solution



Supply is the quantity of a good or service that a supplier will willingly bring to the market at a range of prices. In this case it is Joan's supply of cupcakes each month.

As the price of cupcakes falls from \$4.00 (P) to \$3.00 (P') the quantity supplied falls from 9 000 (Q) to 7 500 (Q') cupcakes. As the price of cupcakes falls Joan is less able to cover costs since the revenue is lower and production of cupcakes will be less profitable.

Several flow-on effects for Joan are: the revenue earned from cupcakes falls from \$36 000 ($\$4 \times 9\,000$) to \$22 500 ($\$3.00 \times 7\,500$); Joan will switch resources to a related good (muffins) which is relatively more profitable; fewer workers/ingredients/less time will be needed/used to produce cupcakes.

The student explains the law of supply in context with correct data and using economic terminology. Links profitability to inability to cover costs and lower revenue. Explains a flow-on effect for Joan as a producer of cupcakes.

Student response _____

Fully explain the law of supply in the context of Steve's supply schedule for yoghurt. In your answer you should:

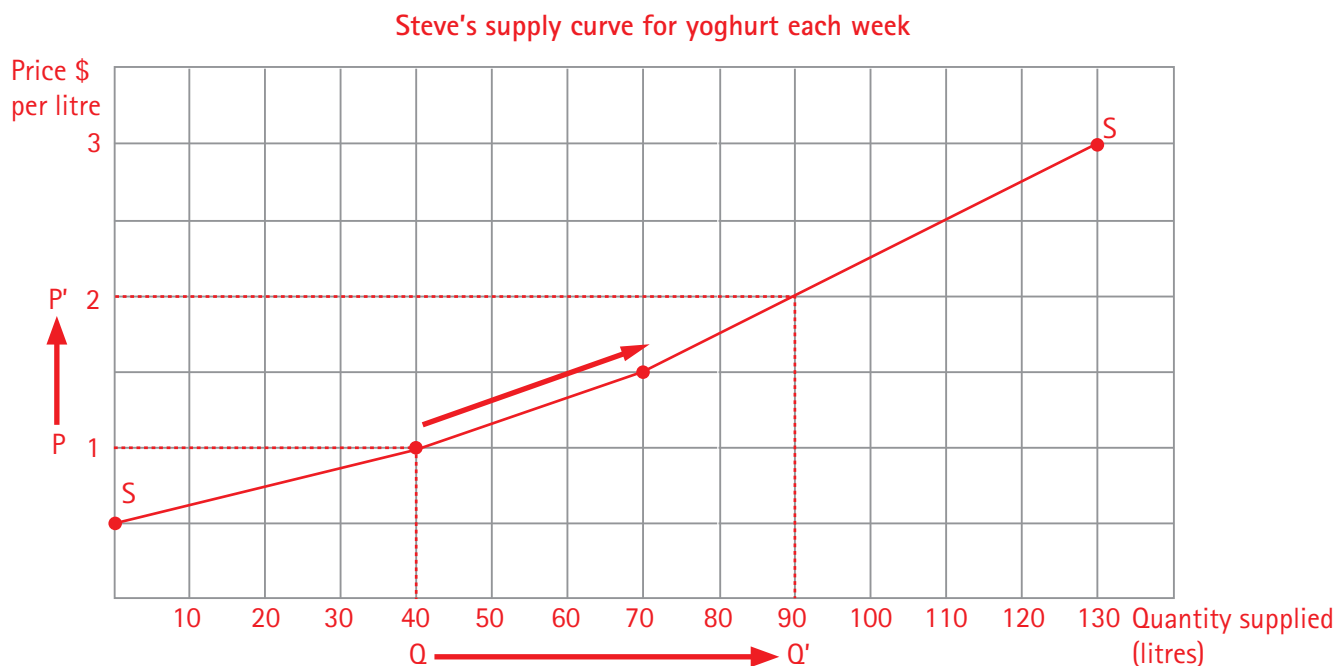
- draw a fully labelled supply curve using the information from the supply schedule. Show the effect of the price of yoghurt increasing from \$1.00 per litre by 100%
- discuss the changes in the supply of ice cream as the price rises from \$1.00 by 100% by referring to the law of supply. Give reasons for the change in the quantity of yoghurt Steve may supply
- explain flow-on effects this price change may have for Steve.

Steve's supply schedule for yoghurt each week	
Price (\$) per litre	Quantity supplied (litres)
0.50	0
1.00	40
1.50	70
3.00	130

[illegible][illegible]

eLearneconomics: Supply (2a)

Solution



As the supply of yoghurt rises from \$1.00 per litre (P) to \$2.00 per litre (P') the quantity supplied by Steve's firm increases from 40 litres (Q) to 90 litres (Q'), ceteris paribus. This follows the law of supply and the reason for this change is that as the price rises Steve's firm is more able to cover his costs, will earn more revenue and be more profitable, therefore Steve will want to increase quantity supplied. Revenue increases from \$40 to \$180.

Steve will divert more resources (labour, time, ingredients) into the production of yoghurt from the production of ice cream (a related good) which is relatively less profitable. Steve may decide to sell off some of the equipment used to make ice cream and purchase equipment specific to yoghurt production.

Student explains the law of supply in context with correct data. Refers to the idea of profitability and the ability to cover costs more easily because revenue will be higher. Explains several flow-on effects on Steve's production of yoghurt and diverting resources out of ice cream (a related good).