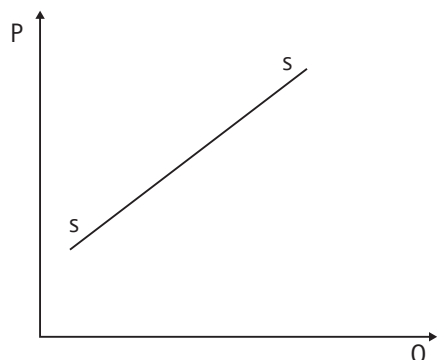




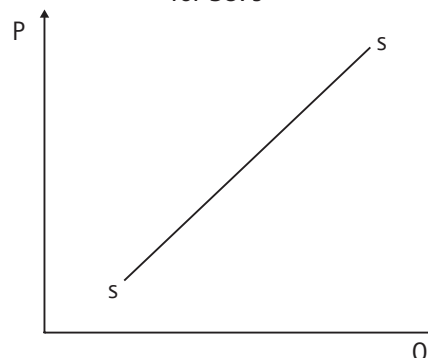
Student response

Fully explain the statement above with reference to new technology and price changes. In your answer you should:

- ### An increase in supply for SUPs



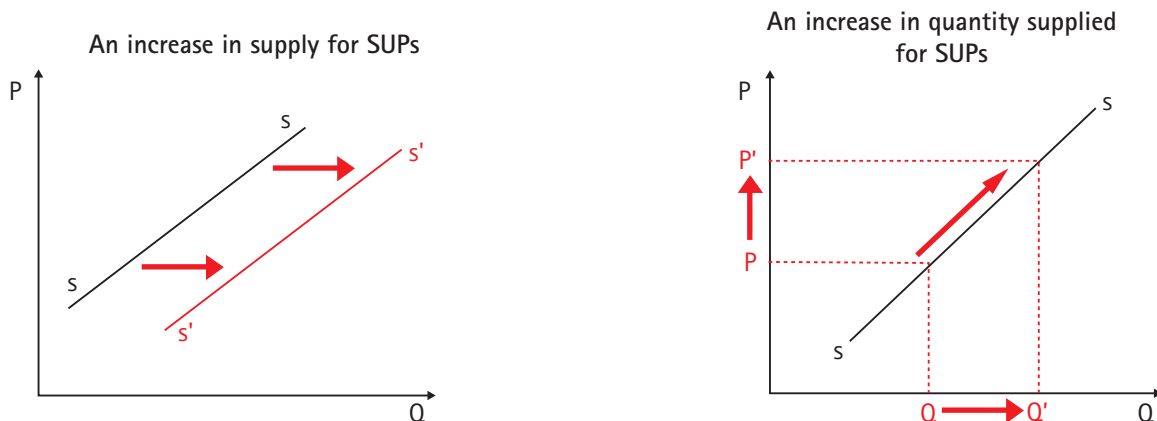
An increase in quantity supplied
for SUPs

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eLearneconomics: Changes in supply (1a)



Solution



An increase in supply occurs when there is an increase in quantity supplied at each and every price. This causes a supply curve to shift outward (to the right), shown as the change from S to S' . New technology is likely to make production more efficient and reduce the cost of producing each SUP. The firm will produce more SUPs at each and every price because they are relatively more profitable.

An increase in quantity supplied for SUPs is due to a price increase of SUPs, shown on the diagram as the change from P to P' . As the price of SUPs increases the firm's revenue will be higher and they will be more able to cover costs, therefore the quantity supplied increases from Q to Q' because it is relatively more profitable to produce SUPs.

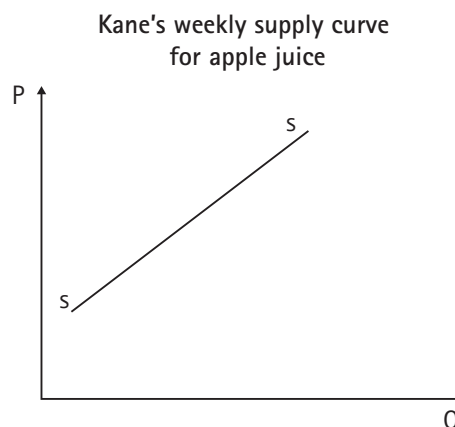
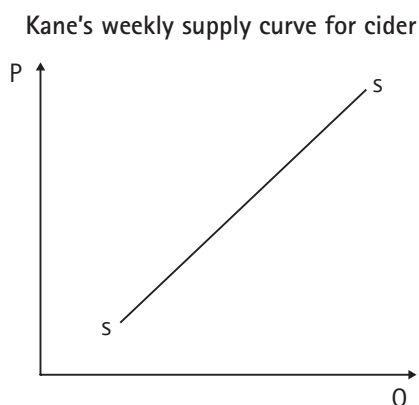
eLearneconomics: Changes in supply (2)

Student response

Effect of a related good: Kane has a small factory that uses apples from a local orchard to produce apple juice as well as cider.

Explain the concept of related goods in the context of Kane's business. In your answer:

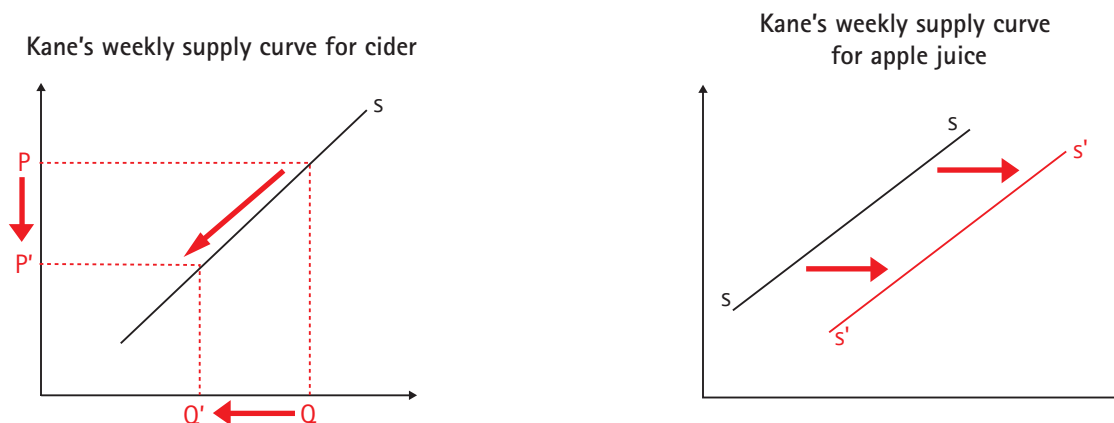
- On the sketch graphs below, show how a decrease in the price of cider might affect Kane's supply of apple juice. Fully label the changes you make on the graphs.
- Explain the relationship between cider and apple juice and how this could affect Kane's use of resources and supply of apple juice. Explain a flow-on effect on Kane's business.

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

eLearneconomics: Changes in supply (2a)



Solution



Apple juice and cider are related goods for Kane, because the resources used to produce both products are similar, for example, apples, vats, bottling machines, bottles. As the price of cider falls from P to P' the quantity supplied falls from Q to Q' . The quantity supplied falls because selling cider becomes relatively less profitable for Kane since revenue is lowered and he is less able to cover costs. Kane will divert resources used in cider production into apple juice output because cider production is less profitable. This will cause the supply curve for apple juice to shift outward (to the right) as shown by the change from S to S' . At each and every price there is an increase in quantity supplied of apple juice because it is relatively more profitable.

Since Kane is producing more apple juice he will need to switch/divert resources (ingredients, workers, time) into the production of apple juice and away from cider production.

Explains the concept of related goods in the context of cider and apple juice. Relates changes to the concept of relative profitability and related goods. Explains a flow-on effect. Uses graphs to support the explanation.