TABLE 3.2 Determinants of Supply: Factors That Shift the Supply Curve

Determinant	Examples
Change in resource prices	A decrease in the price of microchips increases the supply of computers; an increase in the price of crude oil reduces the supply of gasoline.
Change in technology	The development of more effective wireless technology increases the supply of cell phones.
Changes in taxes and subsidies	An increase in the excise tax on cigarettes reduces the supply of cigarettes; a decline in subsidies to state universities reduces the supply of higher education.
Change in prices of other goods	An increase in the price of cucumbers decreases the supply of watermelons.
Change in producer expectations	An expectation of a substantial rise in future log prices decreases the supply of logs today.
Change in number of suppliers	An increase in the number of tattoo parlors increases the supply of tattoos; the formation of women's professional basketball leagues increases the supply of women's professional basketball games.

them out of business and decreasing the catch. The result has been a decline in the market supply of haddock.

Table 3.2 is a checklist of the determinants of supply, along with further illustrations.

Changes in Quantity Supplied

The distinction between a *change in supply* and a *change in quantity supplied* parallels the distinction between a change in demand and a change in quantity demanded. Because supply is a schedule or curve, a **change in supply** means a change in the schedule and a shift of the curve. An increase in supply shifts the curve to the right; a decrease in supply shifts it to the left. The cause of a change in supply is a change in one or more of the determinants of supply.

In contrast, a **change in quantity supplied** is a movement from one point to another on a fixed supply curve. The cause of such a movement is a change in the price of the specific product being considered.

Consider supply curve S_1 in Figure 3.5. A decline in the price of corn from \$4 to \$3 decreases the quantity of corn supplied per week from 10,000 to 7000 bushels. This movement from point *b* to point *a* along S_1 is a change in quantity supplied, not a change in supply. Supply is the full schedule of prices and quantities shown, and this schedule does not change when the price of corn changes.

QUICK REVIEW 3.2

- A supply schedule or curve shows that, other things equal, the quantity of a good supplied varies directly with its price.
- The supply curve shifts because of changes in (a) resource prices, (b) technology, (c) taxes or subsidies, (d) prices of other goods, (e) expectations of future prices, and (f) the number of suppliers.
- A change in supply is a shift of the supply curve; a change in quantity supplied is a movement from one point to another on a fixed supply curve.

Market Equilibrium

With our understanding of demand and supply, we can now show how the decisions of buyers of corn and sellers of corn interact to determine the equilibrium price and quantity of corn. In the table in Figure 3.6, columns 1 and 2 repeat the market supply of corn (from the table in Figure 3.5), and columns 2 and 3 repeat the market demand for corn (from the table in Figure 3.3). We assume this is a competitive market so that neither buyers nor sellers can set the price.

Equilibrium Price and Quantity

We are looking for the equilibrium price and equilibrium quantity. The **equilibrium price** (or *market-clearing price*) is the price where the intentions of buyers and sellers match. It is the price where quantity demanded equals quantity supplied. The table in Figure 3.6 reveals that at \$3, *and only at that price*, the number of bushels of corn that sellers wish to sell (7000) is identical to the number consumers want to buy (also 7000). At \$3 and 7000 bushels of corn, there is neither a shortage nor a surplus of corn. So 7000 bushels of corn is the **equilibrium quantity:** the quantity at which the intentions of buyers and sellers match, so that the quantity demanded and the quantity supplied are equal.

INTERACTIVE GRAPHS
G 3.1
Supply and demand

Graphically, the equilibrium price is indicated by the intersection of the supply curve and the demand curve in **Figure 3.6 (Key Graph).** (The horizontal axis now measures both quantity demanded and quantity supplied.) With neither a shortage nor a surplus at \$3, the market is *in equilibrium*, meaning "in balance" or "at rest."

Competition among buyers and among sellers drives the price to the equilibrium price; once there, it will remain there unless it is subsequently disturbed by changes in