

# ECO101- Introduction to Microeconomics

## Lecture-4

# Study of Demand and Supply- Supply

If a firm supplies a good or service, then the firm:

- Has the **resources** and the **technology** to produce it
- Can **profit** from producing it
- Has made a definite plan to **produce** and **sell** it



**Resources** and **technology** determine what it is possible to produce.

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 Law of Supply

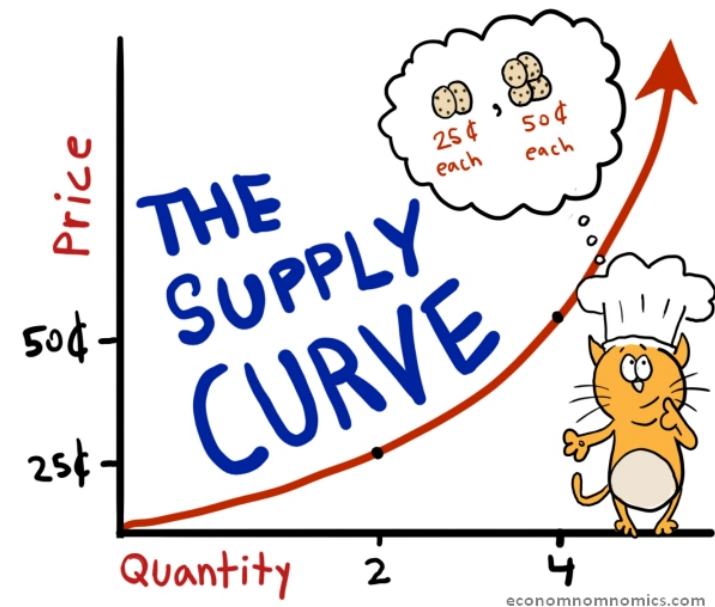
- The **Higher** the price of a good, the **Greater** the quantity supplied. The **Lower** the price of a good the **Smaller** is the quantity supplied; other things remaining the same.

## Why?

- As the better the price of a good, a business/firm is willing to produce more of it
- As the quantity produced of any good **increases**, the marginal cost of producing the good **increases**

# Supply Curve

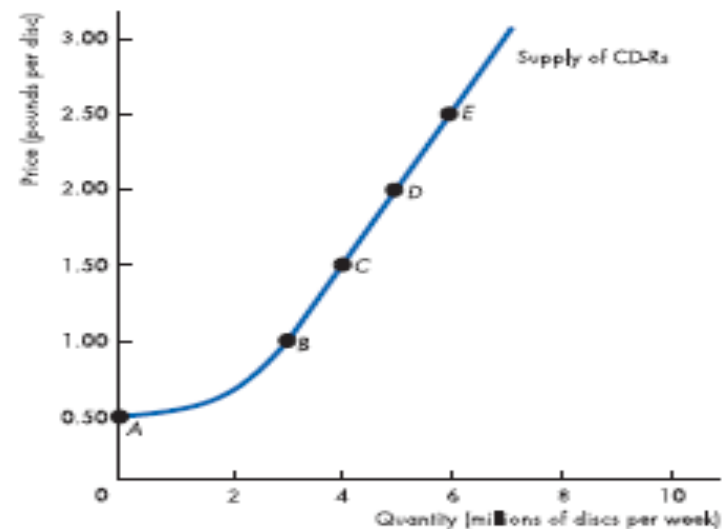
- The term **supply** refers to the entire relationship between the *quantity supplied* and the price of a good.
- The **supply curve** shows the relationship between the quantity supplied of a good and its price when all other influences on producers' planned sales remain the same



# Supply Curve

- The **supply curve** on its own tells us the quantities that people/firms/businesses plan to sell at various prices.
- A rise in the price of a CD, other things remaining the same, brings an increase in the quantity supplied.

The Supply Curve



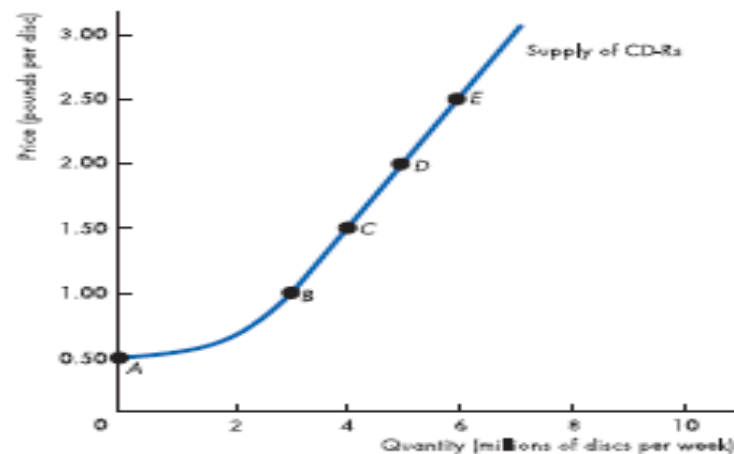
## Change in Quantity Supplied Vs Change in Supply

- **Change in quantity supplied** simply refers to a point on the supply curve — a particular quantity supplied at a particular price
- **Change in supply** is when there is a shift in the supply curve — when any of the factors influences the selling plans other than the price of the good changes

# Minimum Supply Price

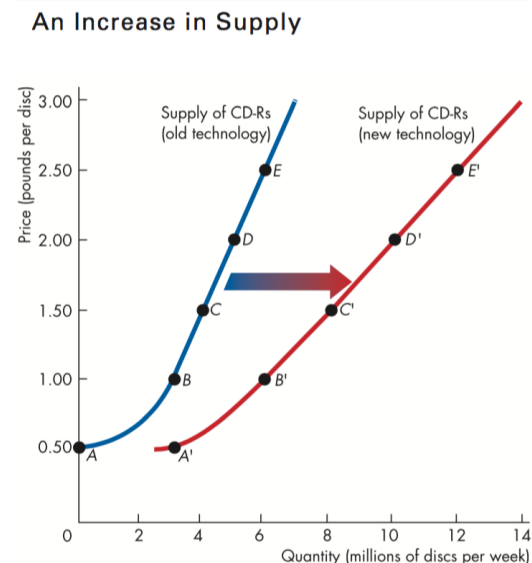
- The supply curve can also be interpreted as the **Minimum-Supply-Curve**: lowest price someone is willing to sell another unit
- Small Quantity produced ➡ Lowest Price is LOW
- High Quantity produced ➡ Lowest Price is HIGH

The Supply Curve



# Change in Supply

- It is when any of the factors influences the selling plans other than the price of the good changes, then we say there is a change of supply.
- And the SIX main factors that brings changes in supply are:
  1. Prices of Factors of Production
  2. Prices of related produced goods
  3. Expected future prices
  4. Number of suppliers
  5. Technology
  6. The state of nature





## Changes in Supply

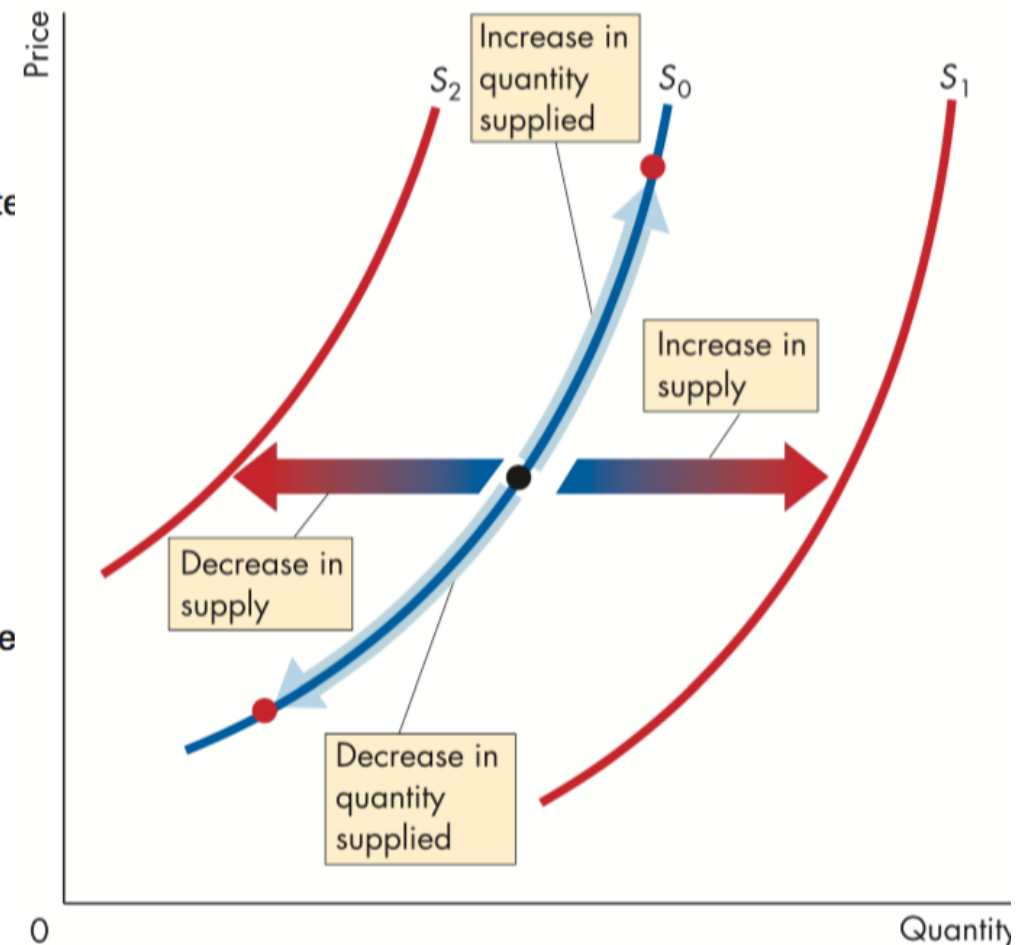
### *The supply of CD-Rs*

#### *Decreases if:*

- ◆ The price of factor of production used to produce CD-Rs rises
- ◆ The price of a substitute in production rises
- ◆ The price of a complement in production falls
- ◆ The price of a CD-R is expected to rise in the future
- ◆ The number of CD-R producers decreases

#### *Increases if:*

- ◆ The price of factor of production used to produce CD-Rs falls
- ◆ The price of a substitute in production falls
- ◆ The price of a complement in production rises
- ◆ The price of a CD-R is expected to fall in the future
- ◆ The number of CD-R producers increases
- ◆ A more efficient technology for producing CD-Rs is used



# Required Readings for Today!

*Parkin, Powell, Matthews.  
Economics. 8th*

*Edition*

*Chapter 3: pages 62 to 65*