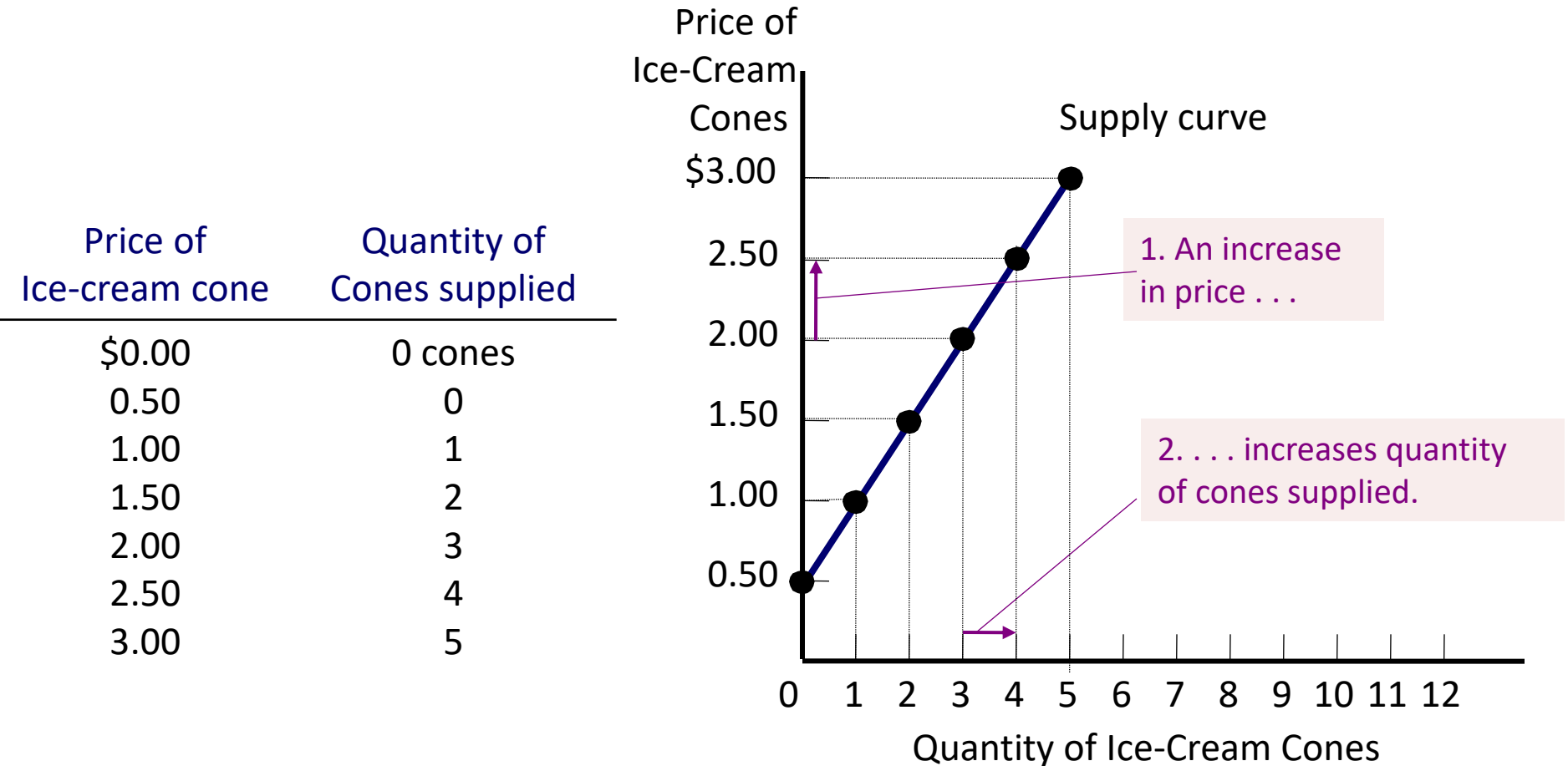


SUPPLY

SUPPLY

- *Supply* is a full description of how the quantity supplied of a commodity responds to changes in its price.
- *Quantity supplied* is the amount of a good that sellers are willing and able to sell in the market.

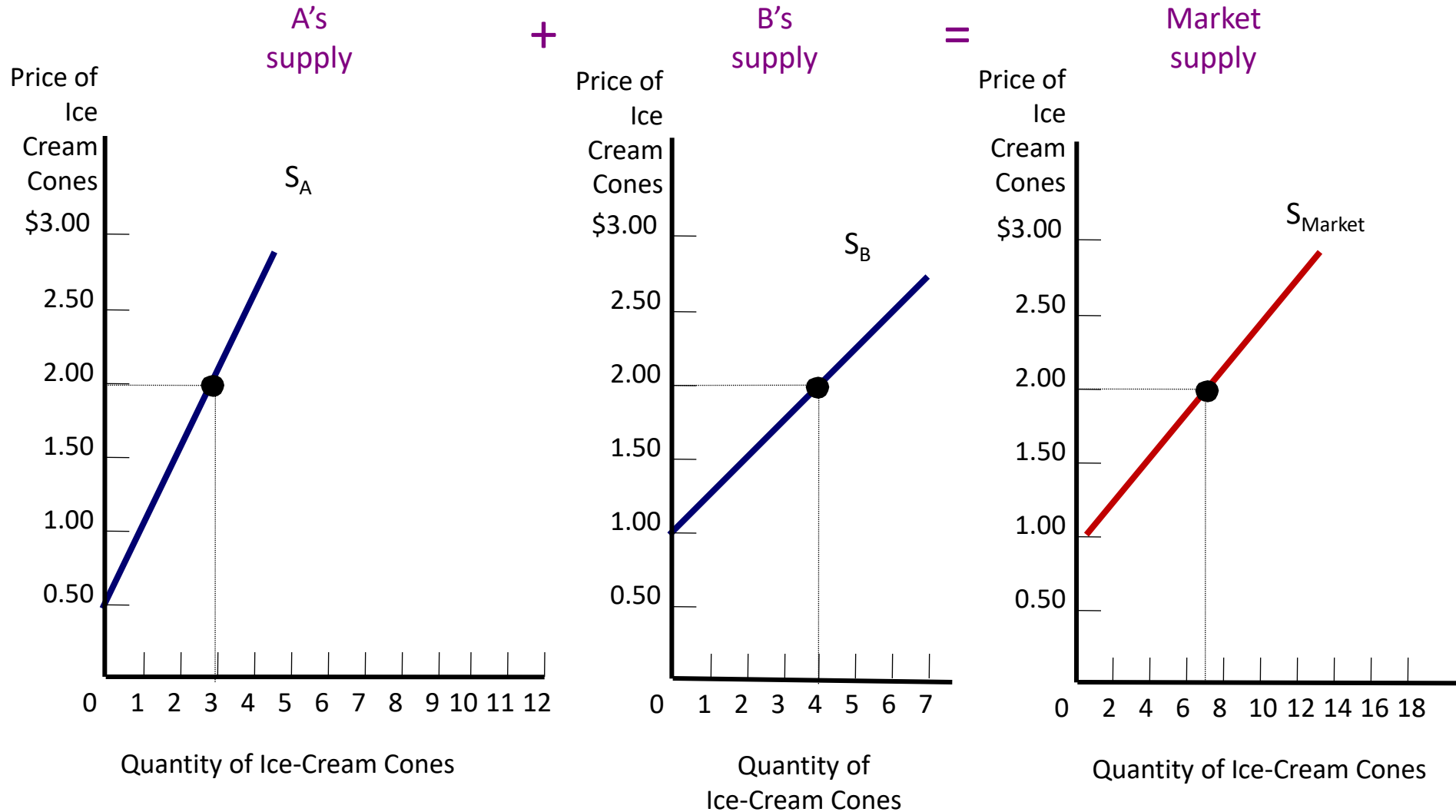
Supply schedule and Supply curve



Market supply and individual supplies

Price of ice-cream cone	A		B		Market
\$0.00	0	+	0	=	0
0.50	0		0		0
1.00	1		0		1
1.50	2		2		4
2.00	3		4		7
2.50	4		6		10
3.00	5		8		13

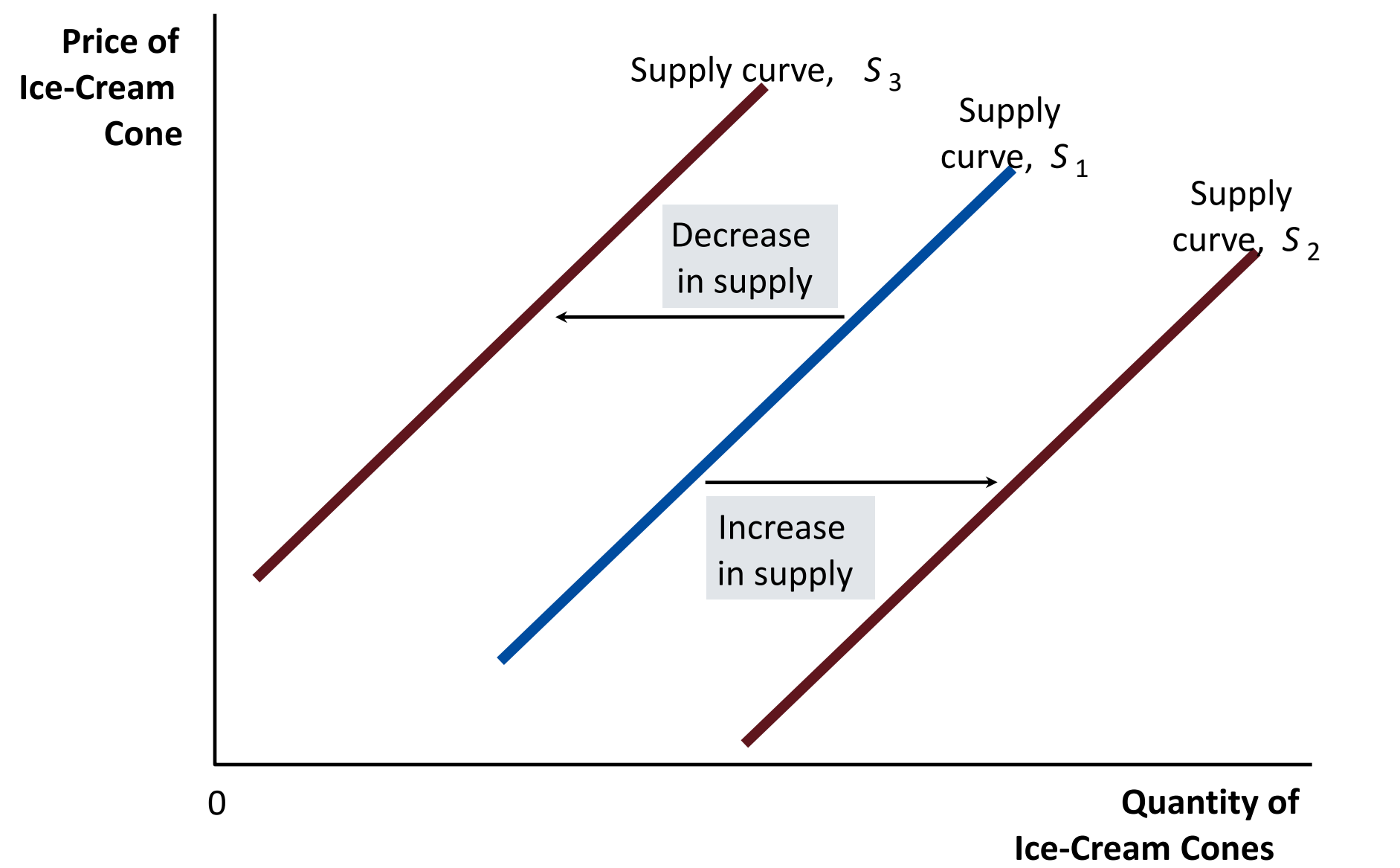
Market supply and individual supplies



Law of Supply

- The *law of supply* states that, **the quantity supplied of a good rises when the price of the good rises**, as long as all other factors that affect suppliers' decisions are unchanged or considering other factors to be constant.

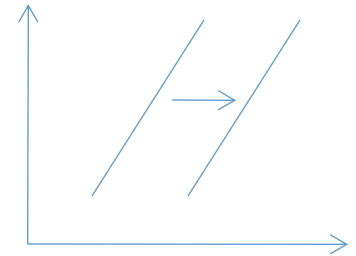
Shifts in the Supply Curve: What causes them?



Supply Shift

Supply Schedule		
Price (\$)	Quantity Supplied	
	Before	After
0.00	0	0
0.50	0	1
1.00	1	2
1.50	2	3
2.00	3	4
2.50	4	5
3.00	5	6

Anything that reduces production costs, shifts supply to the right.

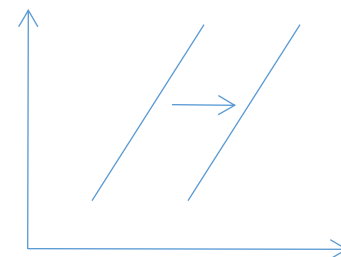


Determinants of Supply

- Price of the Commodity
- Cost of Production
- Profitability in alternative good
- Profitability in Joint good
- Future expected Price
- Natural Calamities
- Man made Calamities
- Number of Suppliers

Shifts in the Supply Curve

- Due to changes in
 - Input prices
 - Technology
 - Number of sellers (short run)
- The market supply will shift right if
 - Raw materials or labor becomes cheaper
 - The technology becomes more efficient
 - Number of sellers increases



Interaction of demand and supply/Equilibrium Point

- We have seen what demand and supply are
- We have seen why demand and supply may shift
- Now it is time to say something about how buyers and sellers collectively determine the market outcome
- To do this, we assume **equilibrium**

SUPPLY AND DEMAND TOGETHER

Demand Schedule

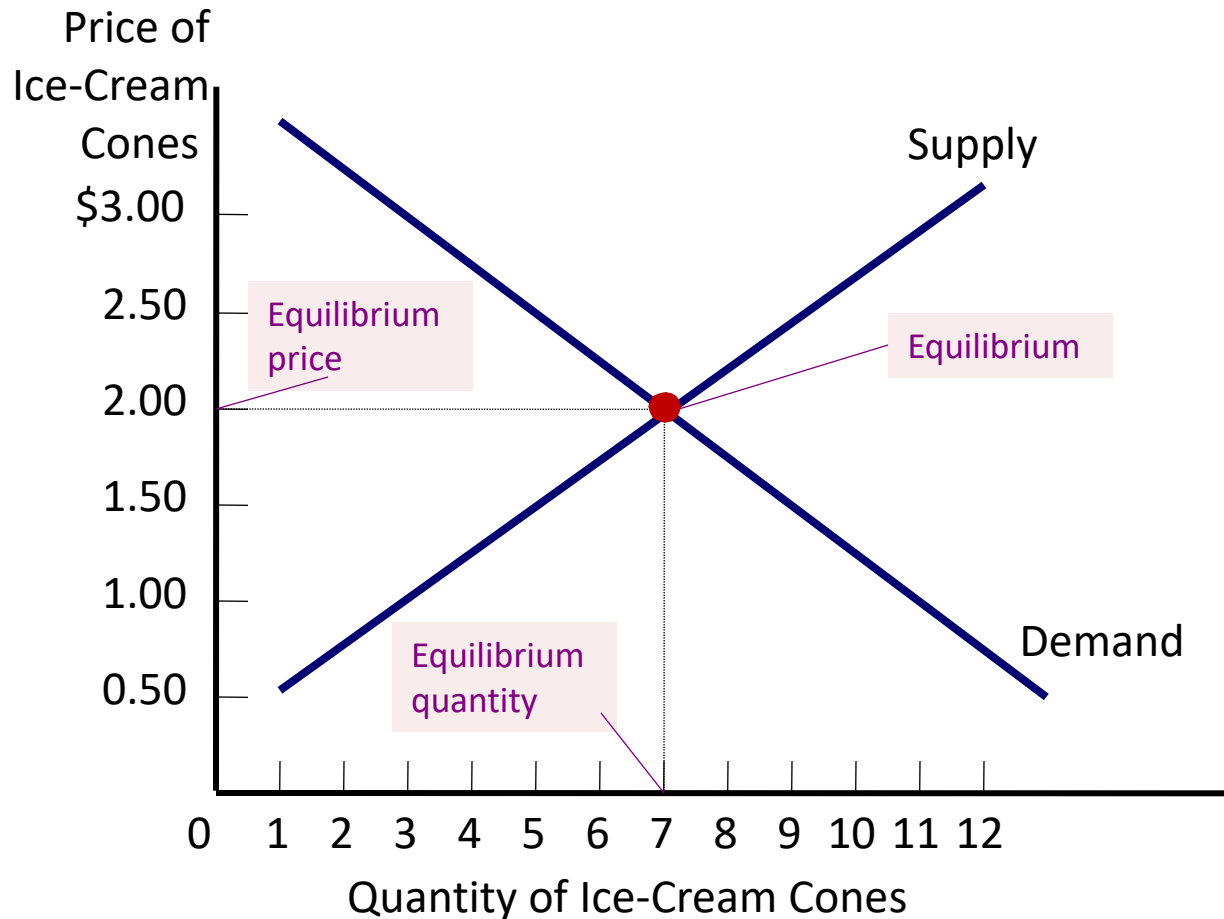
Price of Ice-Cream Cone	Market
\$0.00	19
0.50	16
1.00	13
1.50	10
2.00	7
2.50	4
3.00	1

Supply Schedule

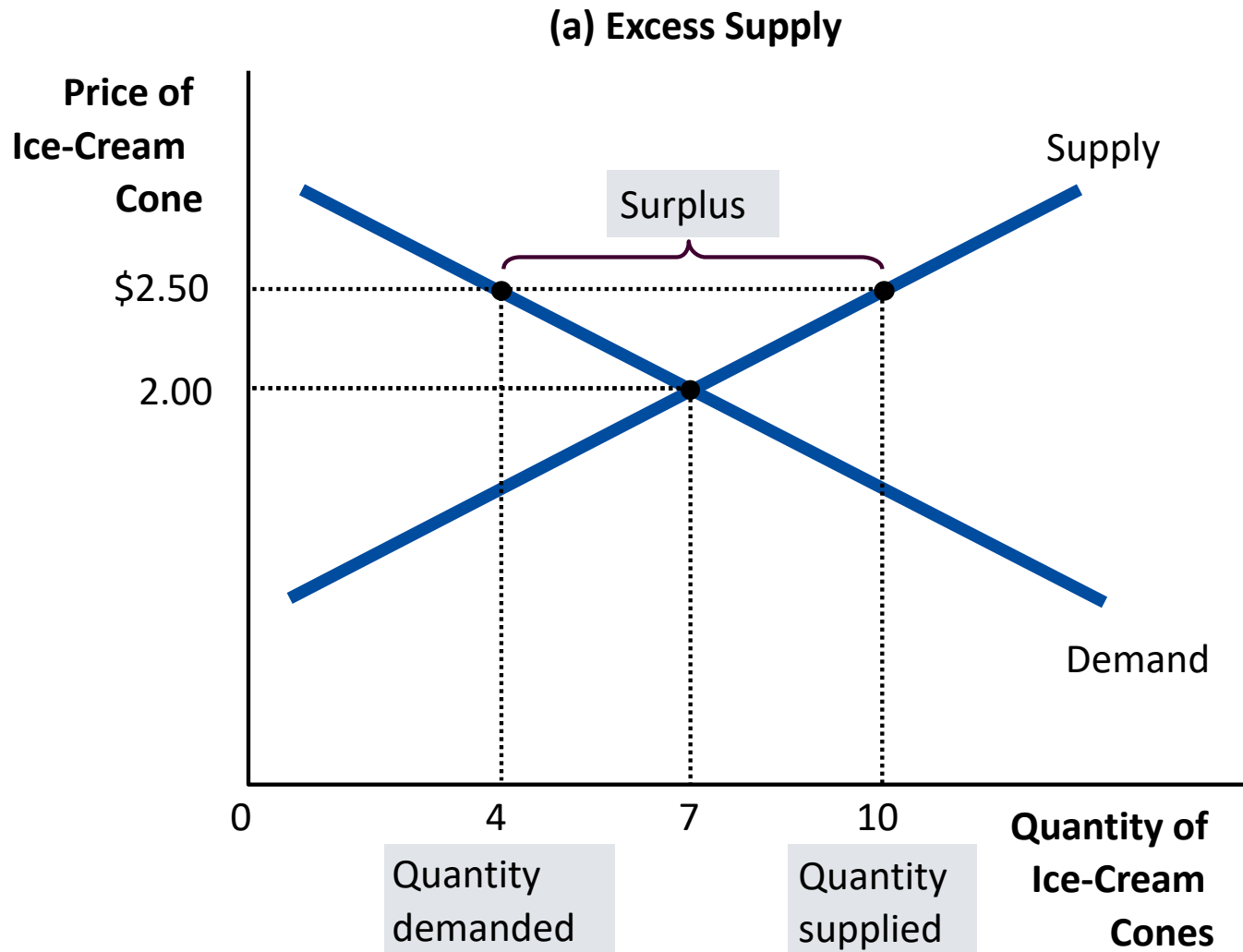
Price of Ice-Cream Cone	Market
\$0.00	0
0.50	0
1.00	1
1.50	4
2.00	7
2.50	10
3.00	13

At \$2.00, the quantity demanded is equal to the quantity supplied!

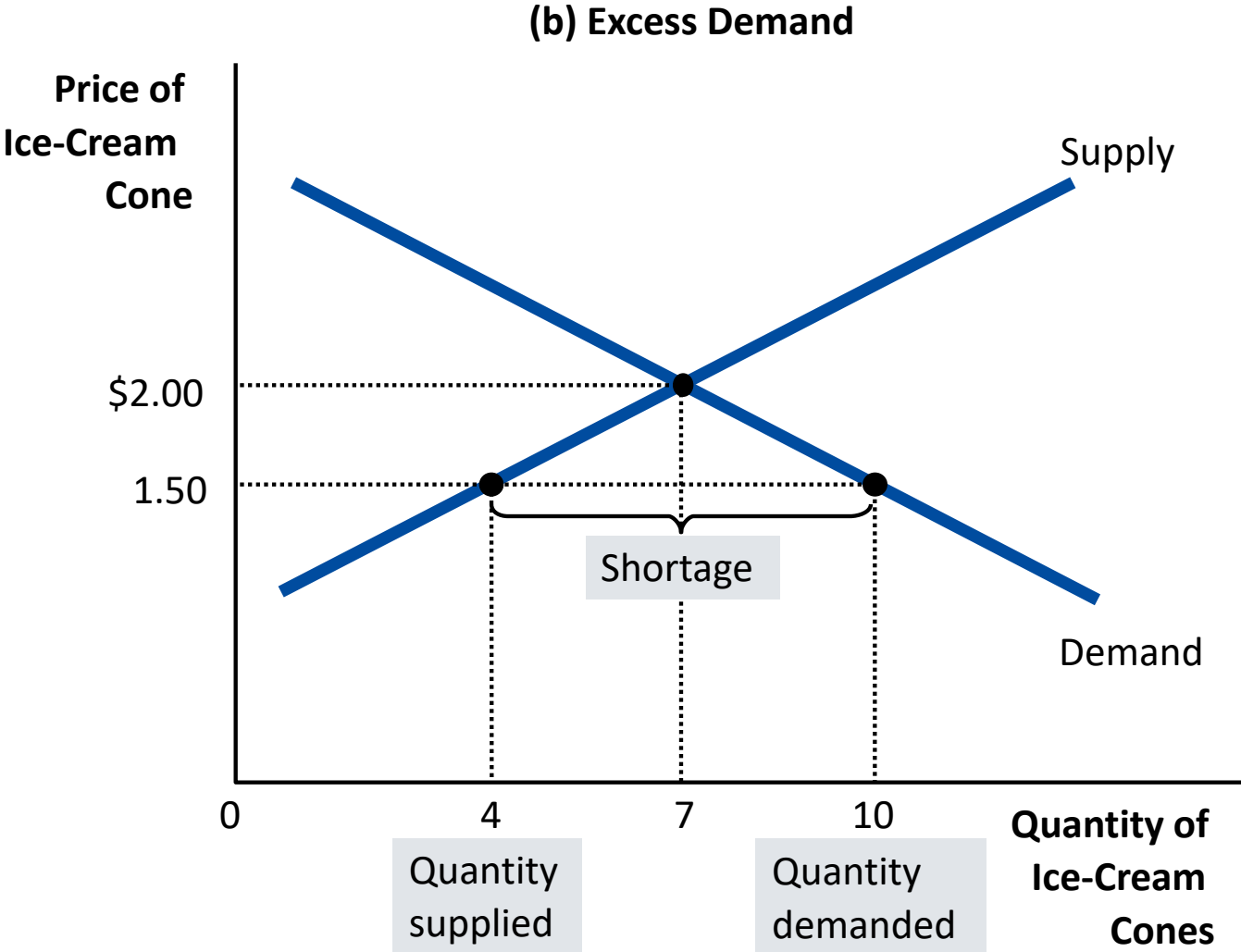
Equilibrium of supply and demand



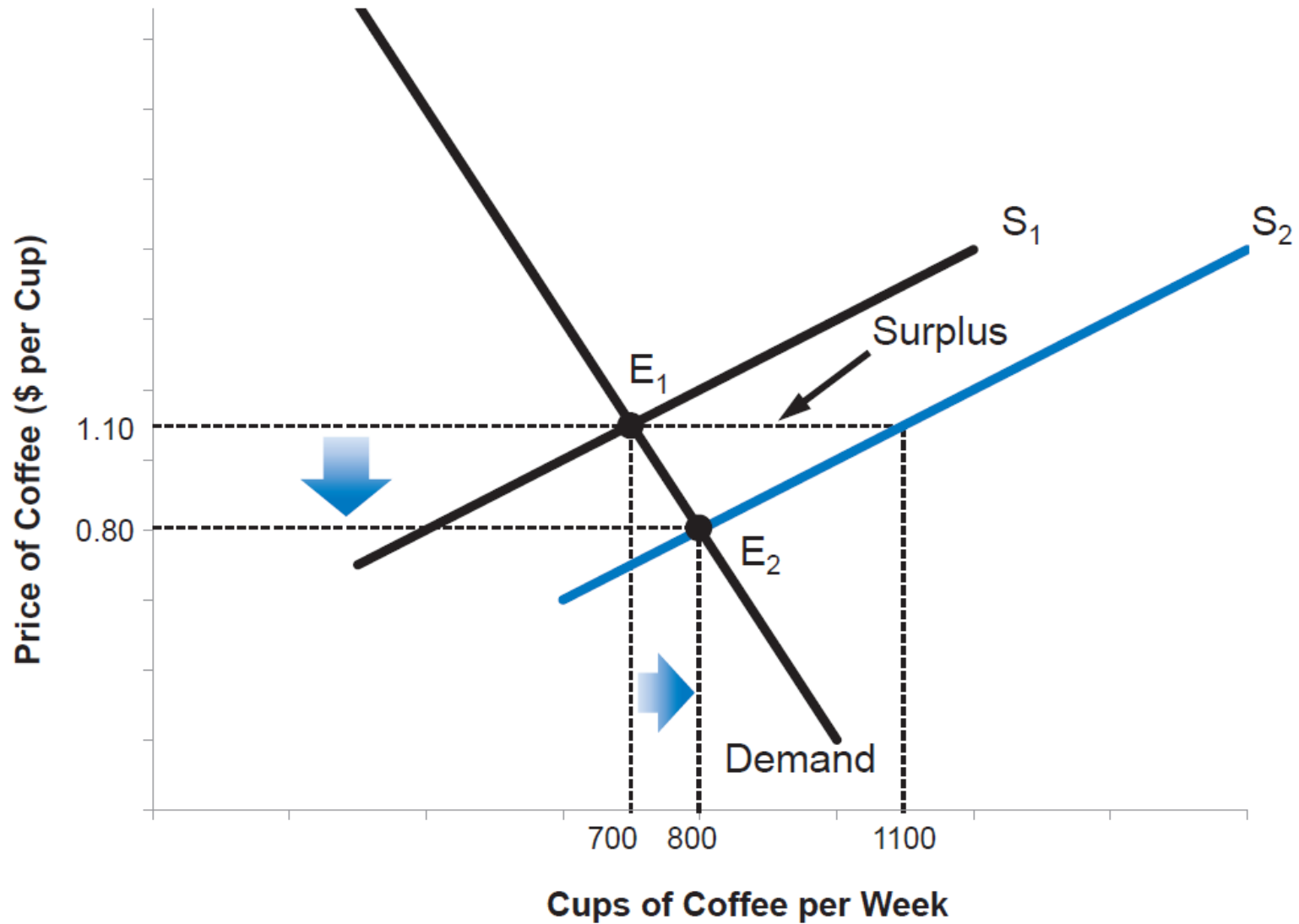
Markets Not in Equilibrium



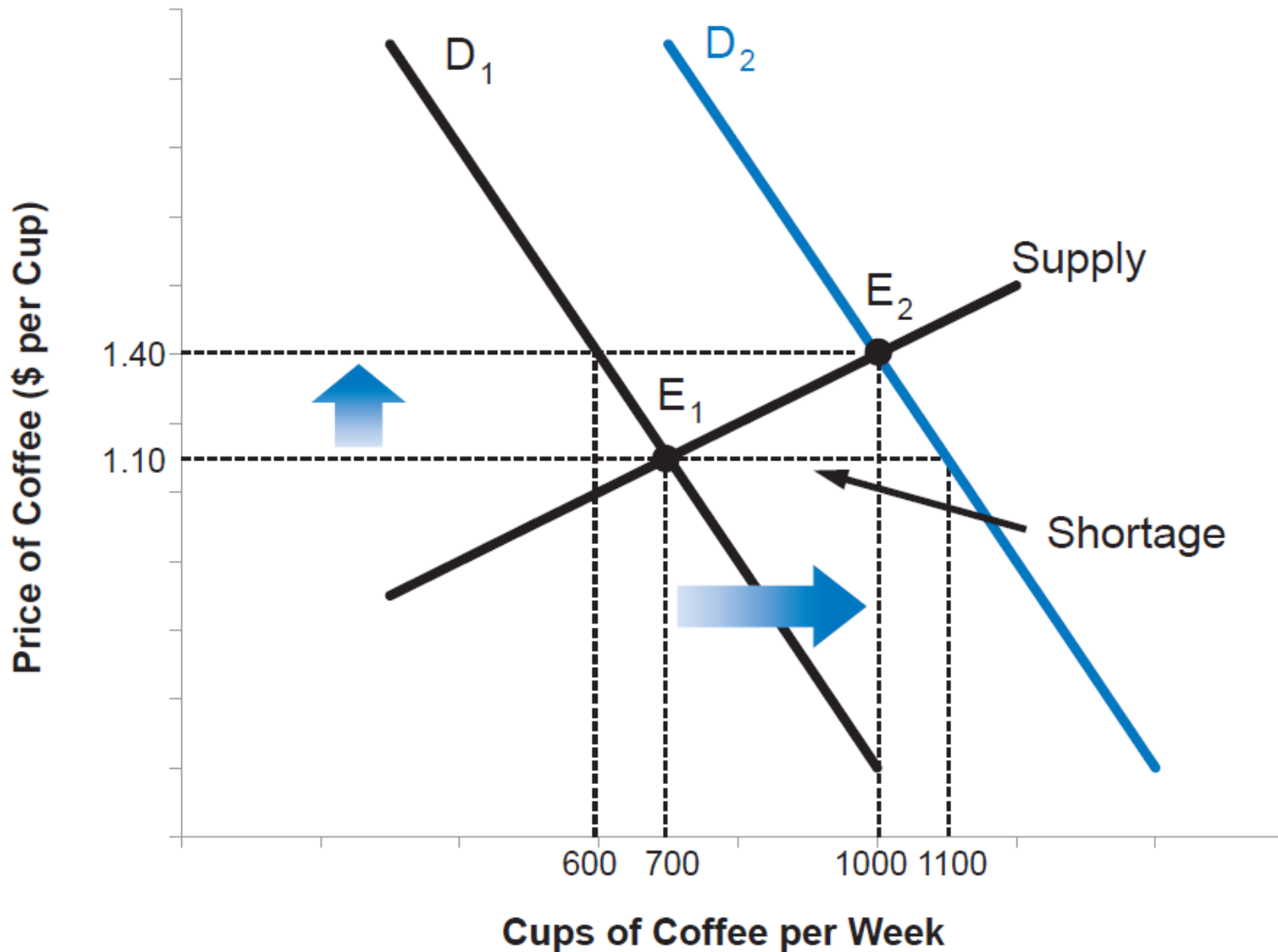
Markets Not in Equilibrium



Market Adjustment to an Increase in Supply



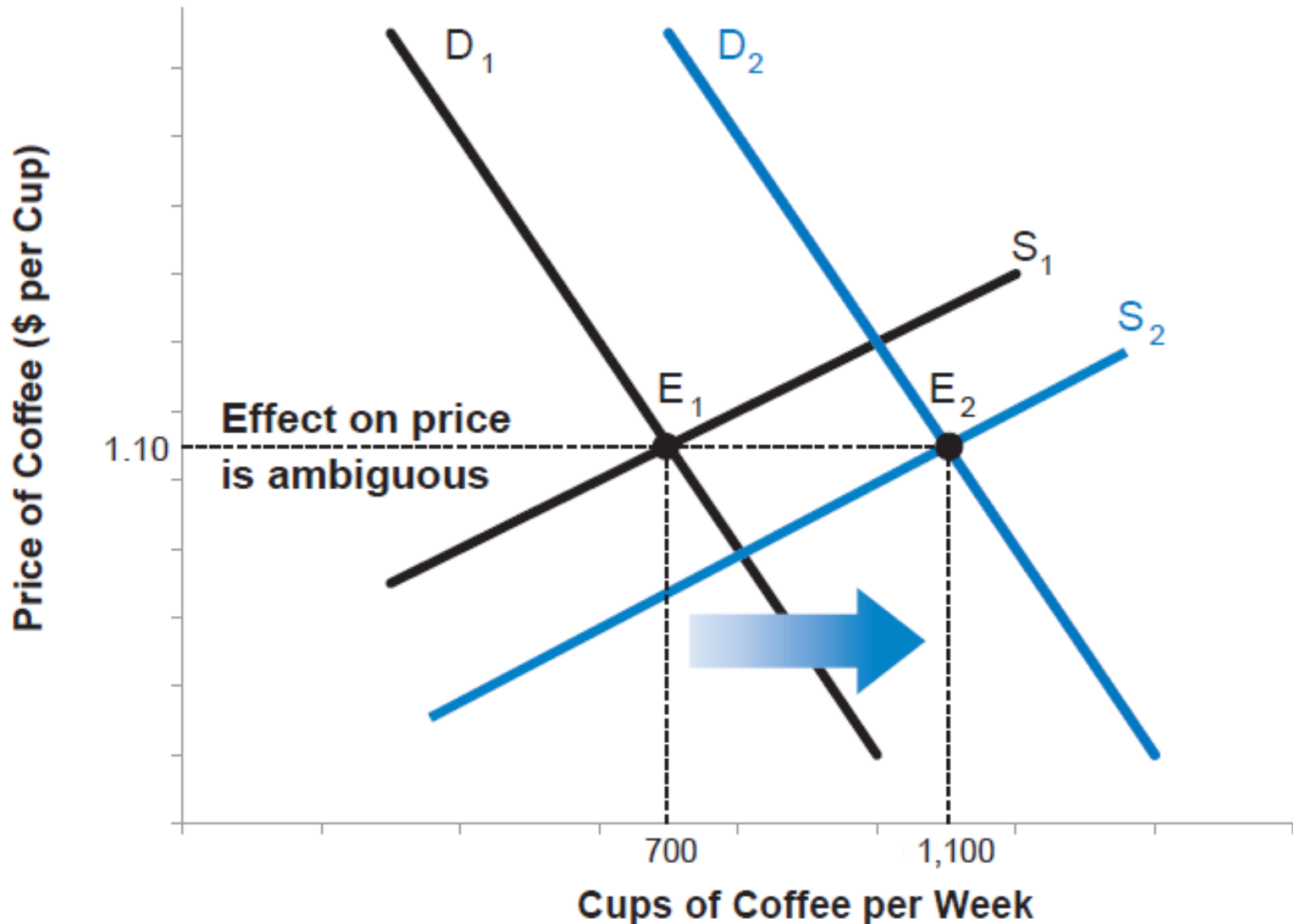
Market Adjustment to an Increase in Demand



Market Effects of Shifts in Supply and Demand

Market change	Effect on equilibrium price	Effect on equilibrium quantity
Increase in supply	Decrease	Increase
Decrease in supply	Increase	Decrease
Increase in demand	Increase	Increase
Decrease in demand	Decrease	Decrease

Market Adjustment with an Increase in Both Supply and Demand



Market Effects When Both Supply and Demand Shift

Market change	Effect on equilibrium price	Effect on equilibrium quantity
Increase in supply, increase in demand	Ambiguous	Increase
Increase in supply, decrease in demand	Decrease	Ambiguous
Decrease in supply, increase in demand	Increase	Ambiguous
Decrease in demand, decrease in demand	Ambiguous	Decrease