

# Econ 101 – Section 5

Lecture 4  
Supply

January 22, 2004

## Supply

- Law of Supply
- The Supply Schedule and the Supply Curve
- Changes in Quantity Supplied
  - Changes in Supply

# Supply

A firm's *production technology* is the set of methods it can use to turn inputs (resources and raw materials) into outputs (goods or services).

# Supply

When a competitive firm comes to a market as a seller, it wants to make the highest possible profit. Firms can choose the level of output they want to produce, but face three constraints:

- Their production technology
- The prices they must pay for their inputs
- The market price of their output

# Supply

A firm's *quantity supplied* of any good is the amount it would choose to produce and sell at a particular price.

## Firm's Quantity Supplied

A firm's *quantity supplied* of any good is the amount it would choose to produce and sell at a particular price.

## **Market Quantity Supplied**

**Total amount of a good or service that all producers in a market would choose to produce and sell at a given price**

## **Law of Supply**

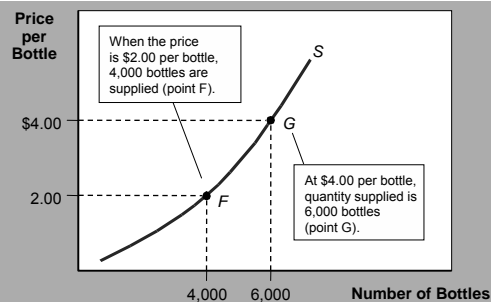
**As the price of a good increases, the quantity supplied increases**

## The Supply Schedule and the Supply Curve

*Supply schedule:* a list showing the quantities of a good or service that firms would choose to produce and sell at different prices, with all other variable held constant

*Supply curve:* a graphical depiction of a supply schedule

## The Supply Schedule and the Supply Curve



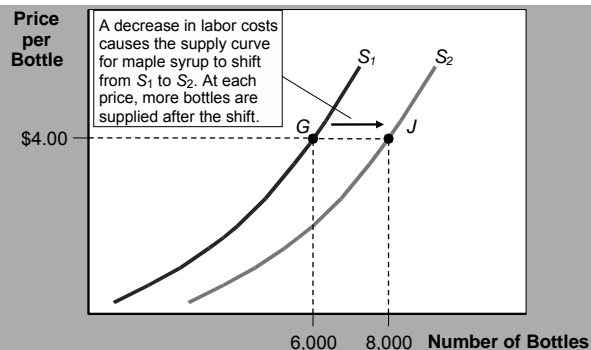
| Price (per Bottle) | Quantity Demanded (Bottles per Month) |
|--------------------|---------------------------------------|
| \$1.00             | 2,500                                 |
| 2.00               | 4,500                                 |
| 3.00               | 5,000                                 |
| 4.00               | 6,000                                 |
| 5.00               | 6,500                                 |

## Changes in Quantity Supplied and Supply

*Change in quantity supplied:* movement along a supply curve in response to a change in price

*Change in supply:* shift of a supply curve in response to some variable other than price

## Changes in Quantity Supplied and Supply



| Price (per Bottle) | Original Quantity Demanded (Bottles per Month) | New Quantity Demanded After Increases in Income (Bottles per Month) |
|--------------------|--|---|
| \$1.00             | 7,500  | 9,500   |
| 2.00               | 5,000  | 8,000   |
| 3.00               | 5,000  | 7,000   |
| 4.00               | 4,000  | 6,000   |
| 5.00               | 3,500  | 5,500   |

## Prices of Inputs

- A rise in price of an input causes a decrease in supply that shifts the supply curve to the *left*
- A fall in price of an input causes an increase in supply that shifts the supply curve to the *right*

## Profitability of Alternate Goods

*Alternate goods:* other goods a firm could produce using some of the same kinds of inputs as the original good

*When an alternate good becomes more profitable to produce because*

- *its price rises*
- *the cost of producing it falls*
- *the supply curve for the original good will shift leftward*

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## Technology

*Cost-saving technological advances increase the supply of a good, shifting the supply curve to the right*

## Productive Capacity

- *An increase in productive capacity shifts the supply curve rightward.*
- *A decrease in productive capacity shifts the supply curve leftward.*

## Expectation of Future Prices

*A rise in the expected price of a good will decrease the supply, shifting the supply curve leftward.*

*- Decrease current supply to take advantage of higher prices later.*

# Movements along the supply curve and shifts in supply

