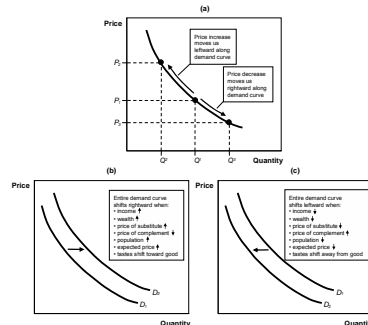


# Econ 101 – Section 5

Lecture 4  
Supply

January 22, 2004

## Changes in Demand and Quantity Demanded



## Supply

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

## 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

## 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

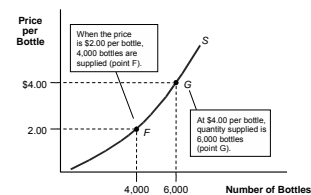
As the price of a good increases, the quantity supplied increases

## 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

## Demand vs. Quantity Demanded

*Change in Quantity Demanded* = movement *along* the demand curve

*Change in Demand* = movement *of the entire* demand curve

## Changes in Quantity Supplied and Supply

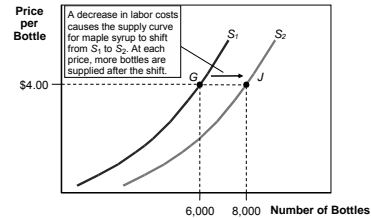
*Change in quantity supplied:* movement along a supply curve in response to a change in price

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

Supply schedule before and after a decrease in the price of labor (lower labor costs shifts supply to the right)

Price (per Bottle)	Quantity Supplied (Bottles/Month)	Quantity Supplied After Increase in Supply
\$1.00	2,500	4,500
2.00	4,000	6,000
3.00	5,000	7,000
4.00	6,000	8,000
5.00	6,500	8,500

## Changes in Quantity Supplied and Supply



## 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

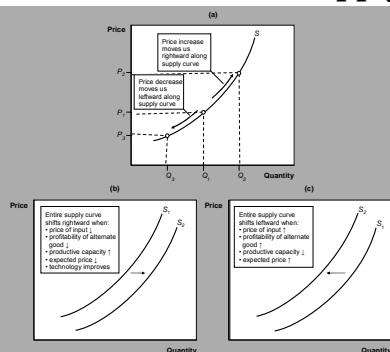
- *An increase in productive capacity shifts the supply curve rightward.*
- *A decrease in productive capacity shifts the supply curve leftward.*

## 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



## Putting Supply and Demand Together

- How do we find the equilibrium prices and quantities?
- Use the concept of equilibrium
- What happens when price is above or below the equilibrium price?