

• Supply

1) What is the law of Supply and how do we illustrate it?

The law of supply states that:

- Other factors being constant (ceteris paribus), price and quantity supplied of any good and service are **positively related** to each other.
 - The higher the price of a good, the greater is the quantity supplied;
 - The lower the price of a good, the smaller is the quantity supplied.

The law of supply is illustrated by:

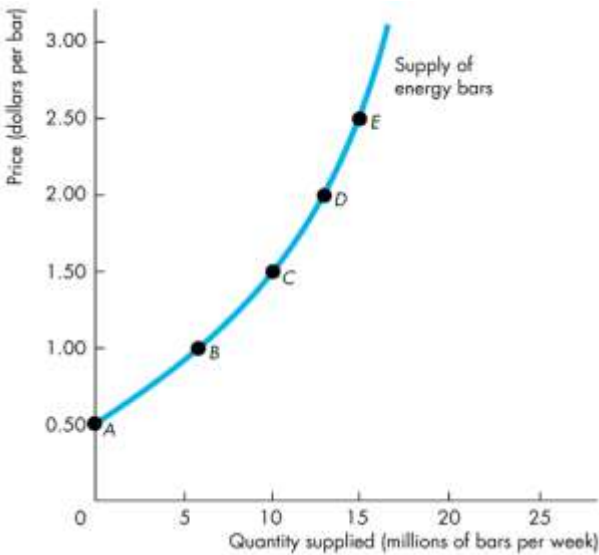
- **An upward-sloping supply curve** drawn with the quantity supplied on the horizontal axis and the price on the vertical axis.
- The slope is positive to show the positive relation between P & Qs

2) What are the causes of a Change in the Quantity supplied (the causes of the law of supply)?

The Price of the good is the only one factor that affects Quantity supplied $\Delta P \rightarrow \Delta Qs$

Change the Price of the good $\rightarrow$ Change in quantity supplied $\rightarrow$ Movement along the supply curve

- $P \downarrow \rightarrow Qs \downarrow \rightarrow$ Move down along supply curve
- $P \uparrow \rightarrow Qs \uparrow \rightarrow$ Move up along supply curve



3) What does the supply curve tell us about the producer’s minimum supply price?

A supply curve is a minimum-supply-price curve, because the minimum price is:

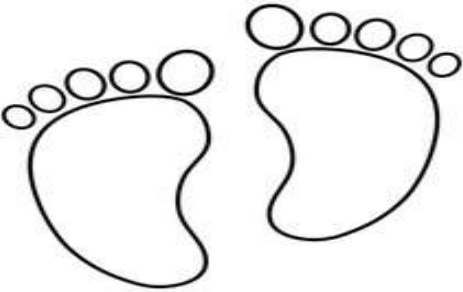
- The lowest price at which supplier is willing to sell an additional unit of output.
- As a result, the price is **the marginal cost (MC)** of the last unit produced at this level of output.).
(Minimum. P = MC)
- For any fixed quantity of a good available, the greater the quantity available, the higher Mc

4) List all the factors that lead to change Supply curve, and for each influence, say whether it increases or decreases supply.

- ❖ A supply curve shifts whenever a factor that affects the supply of the good changes at given price
 - Shift RIGHT: Increase in supply (at all prices)
 - Shift LEFT: Decrease in supply (at all prices)
- ❖ At given price level, the Main factors that change supply are:

“I.N.S.T.E.P”

1. I nputs **(-)**
2. N umber of suppliers **(+)**
3. S tate of nature **(-)**
4. T echnology **(+)**
5. E xpected future prices **(-)**
6. P rices of related goods produced)
 - (substitute **(-)** or complementary **(+)**)



1) Inputs

- If the **price of a factor of production** or materials needed to produce a good rise,
- The **minimum price** that a supplier is willing to accept for producing each quantity of that good rises.
- the **costs of production** increases
- This exerts a Negative effect on the **supply curve** shifting it leftward

So, the price of a factor of production has a Negative relation with supply curve.

2) Number of suppliers

- The larger the number of suppliers of a good, the greater is the supply of the good.
- This exerts a positive effect on the supply curve shifting it rightward

So, Number of suppliers has a positive relation with supply curve.

3) State of nature

- The state of nature includes all the natural forces that influence production—for example, the weather.
- A natural disaster decreases supply and shifts the supply curve leftward.

So the State of nature has a Negative relation with supply curve.

4) Technology

- When use **Advances in technology** or Achieve Improvements in machines and production leads to
- Increase **productivity** and create new products
- Lower **the cost of producing** existing products.
- This exerts a positive effect on the **supply curve** shifting it rightward

So, Technology has a positive relation with supply curve.

5) Expected future prices

- If the expected future price of a good rises, the supply of the good today decreases and the supply curve shifts leftward.

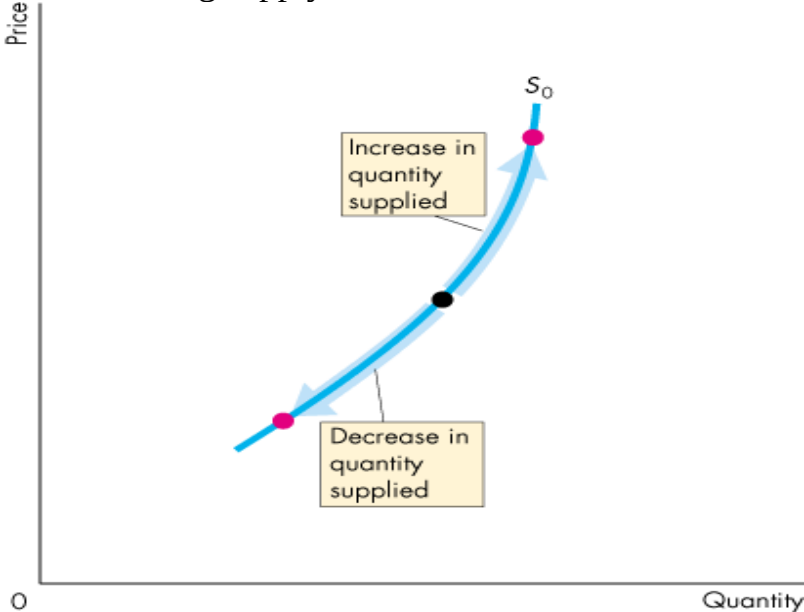
So Expected future prices of goods has a Negative relation with supply curve.

6) Prices of related goods produced

A substitute goods	Complementary goods
- A substitute in production for a good is another good that can be produced using the same resources. - The supply of good increases if the price of a substitute in production falls. P. coffee↓ → Qs. coffee ↓ → supply. tea ↑ ○ A decrease in the price of a substitute(coffee), ○ increases the supply of Tea ○ The supply curve of tea shifts rightward, and vice versa So <u>the price of substitute goods</u> has a <u>Negative relation</u> with supply curve.	- Goods are complements in production if they must be produced together. - The supply of good increases if the price of a complement in production rises. P. sugar↓ → Qs. sugar ↓ → supply. tea ↓ ○ A decrease in the price of a complement (sugar), ○ decreases the supply of Tea ○ The supply curve of tea shifts leftward, and vice versa So <u>the price of Complementary goods</u> has a <u>Positive relation</u> with supply curve.

5) What happens to the quantity of energy bar supplied and the supply of energy bar if the price of energy bar falls?

- If the price of energy bar falls and all other factors are constant, then the quantity of energy bar supplied will decrease and there is a movement down along the supply curve for energy bar.
- But, the supply of energy bar remains unchanged and the supply curve does not shift.
 - o Because price does not influence or lead to shift in supply curve, price is the only factor that leads to change the Quantity supplied and cause a movement along supply curve

Change Quantity supplied	Change Supply curve
- o Other factors constant, as the price change, Quantity supplied will change at same direction - o Movement along supply curve 	When price is constant, as the other influences on producing plans change, Supply will change Shift supply curve at given price level. 