

Test Yourself: Supply



If all economists were laid end to end, they
would still not reach a conclusion.

GB Shaw



What is supply?



Supply represents the choice-making behavior of sellers.

The **law of supply** says there is a direct relationship between the price of a good and the quantity sellers are willing to offer for sale in a defined time period, *ceteris paribus*.

We use a **supply schedule** to show the relationship between the price and the quantity supplied on a **supply curve**.



Why do supply curves have a positive slope?

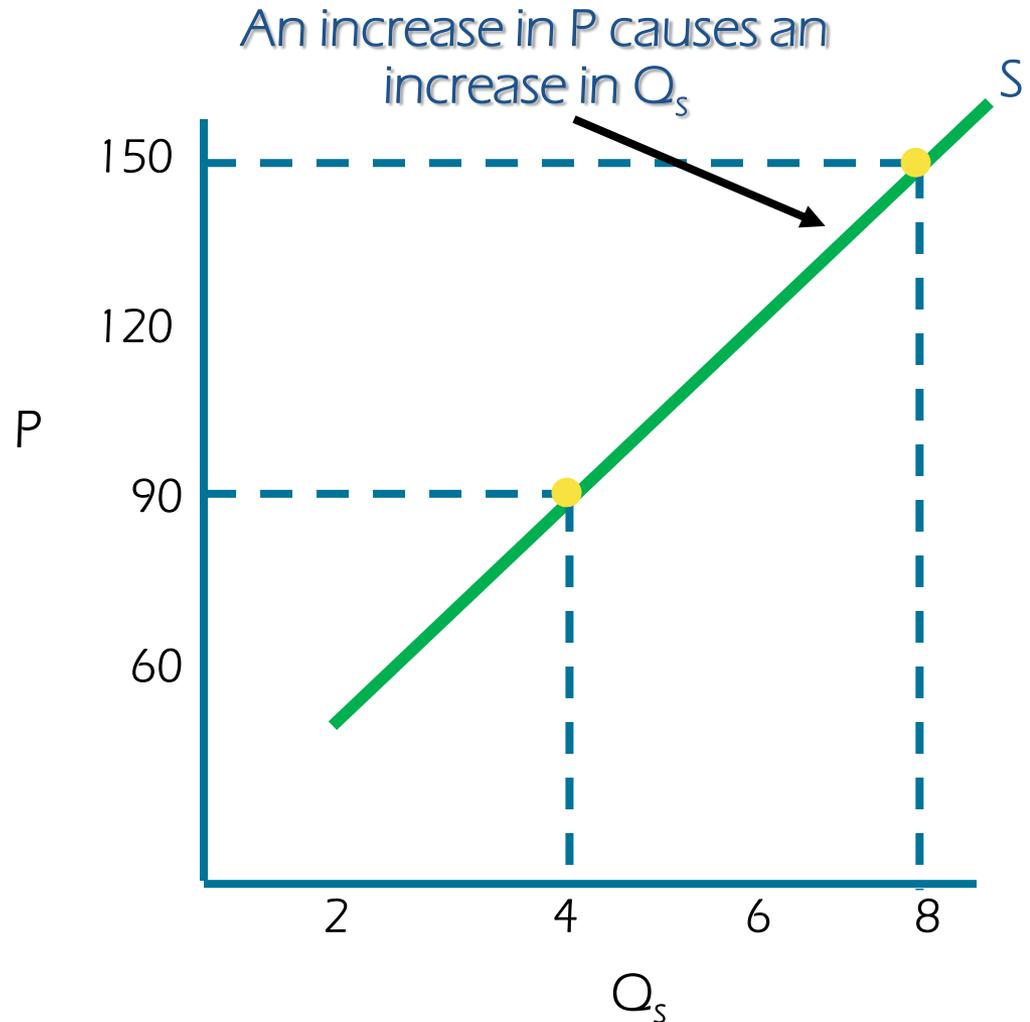


Supply curves have a positive slope because only at a higher price will it be profitable for sellers to incur the higher opportunity cost associated with supplying a larger quantity.



Table and Chart: Quantity Supplied (Q_s)

P	Q_s
\$150	8
120	6
90	4
60	2





What does a direct relationship
between price and quantity
mean?



A *direct* relationship between price and quantity means the two move in the same direction.

When one goes up, the other goes up.

When one goes down, the other goes down.

By contrast, an *inverse* relationship means the two move in opposite directions.



What is market supply?

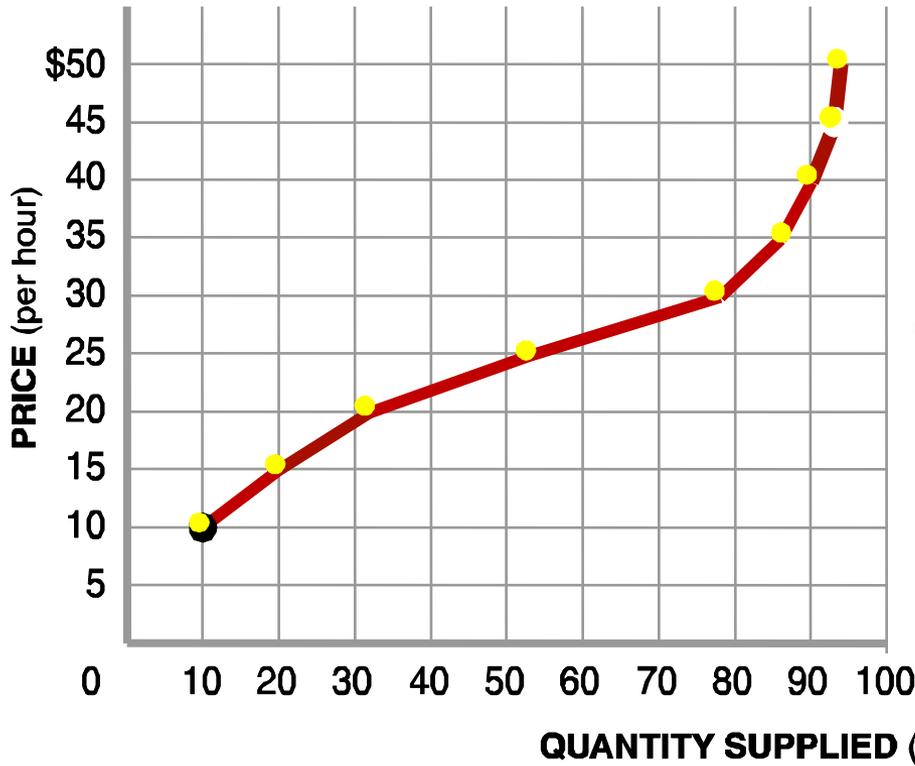


Market supply is the summation of all the quantities supplied at various prices that might prevail in the market.

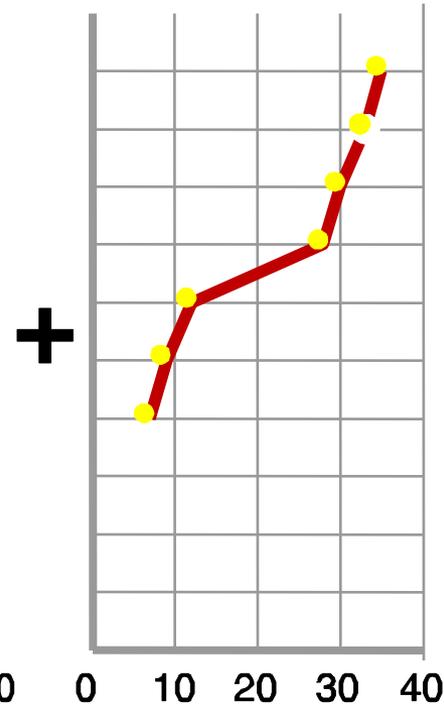


Charts: Construction of the Market Supply Curve

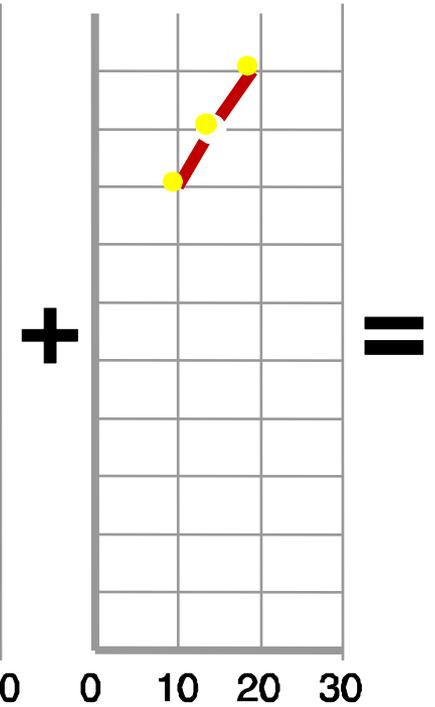
(a) Ann's supply curve



(b) Bob's supply curve



(c) Cory's supply curve



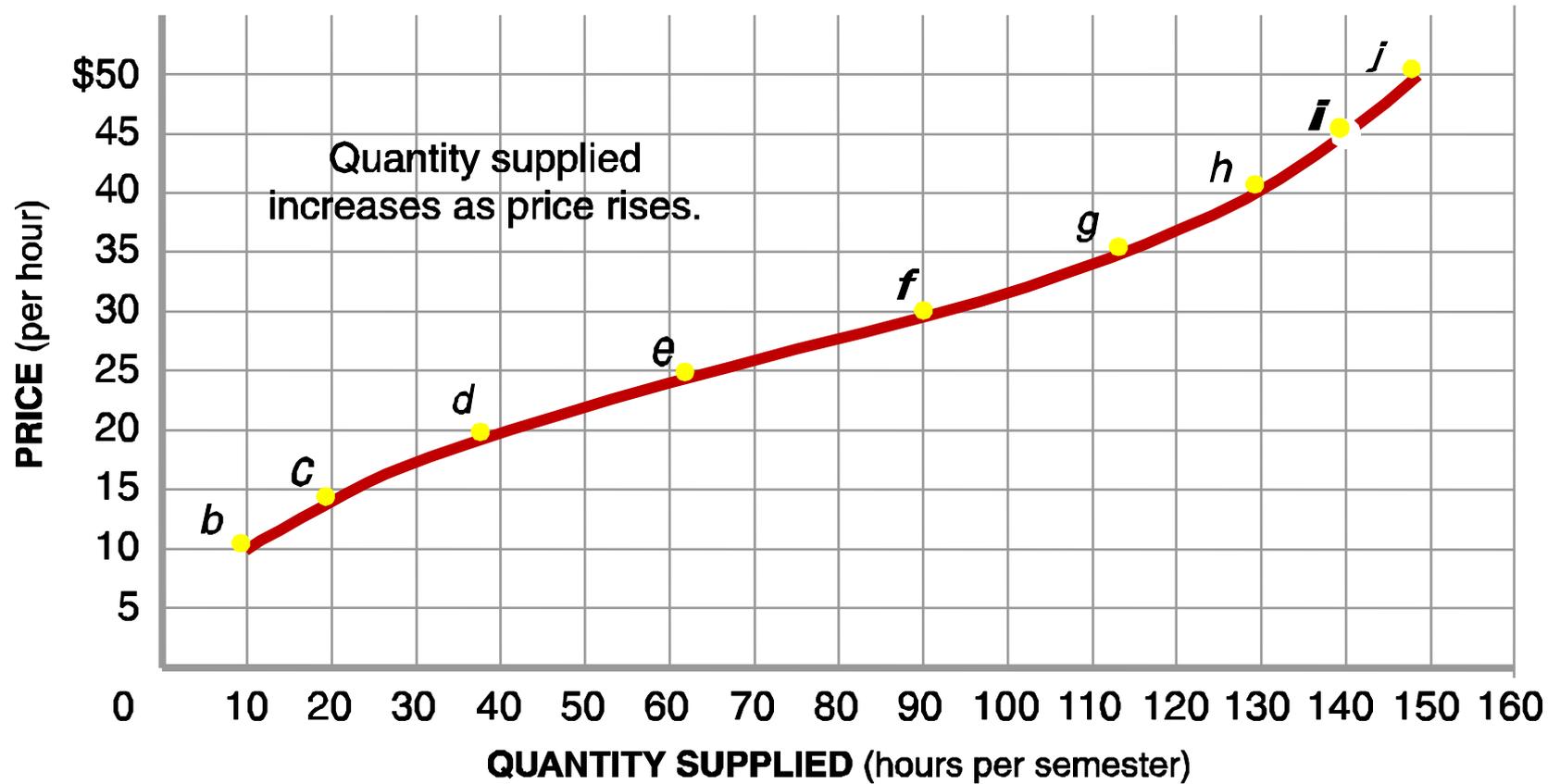
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Chart: Construction of the Market Supply Curve





What happens when price
changes?

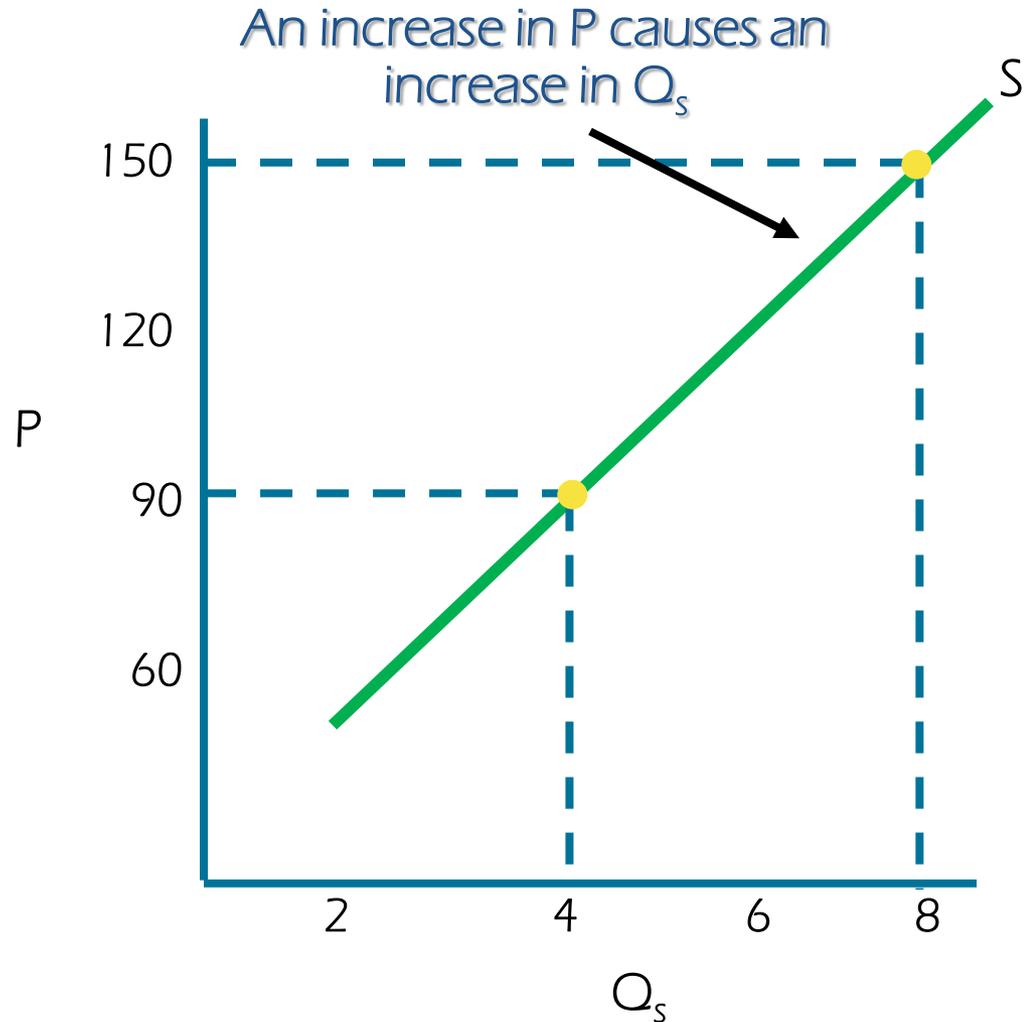


When price changes the curve does not shift. There is a change in the *quantity supplied* and so movement *along* the supply curve.



Table and Chart: Change in the Quantity Supplied (Q_s)

P	Q_s
\$150	8
120	6
90	4
60	2





What happens when something
other than price changes?



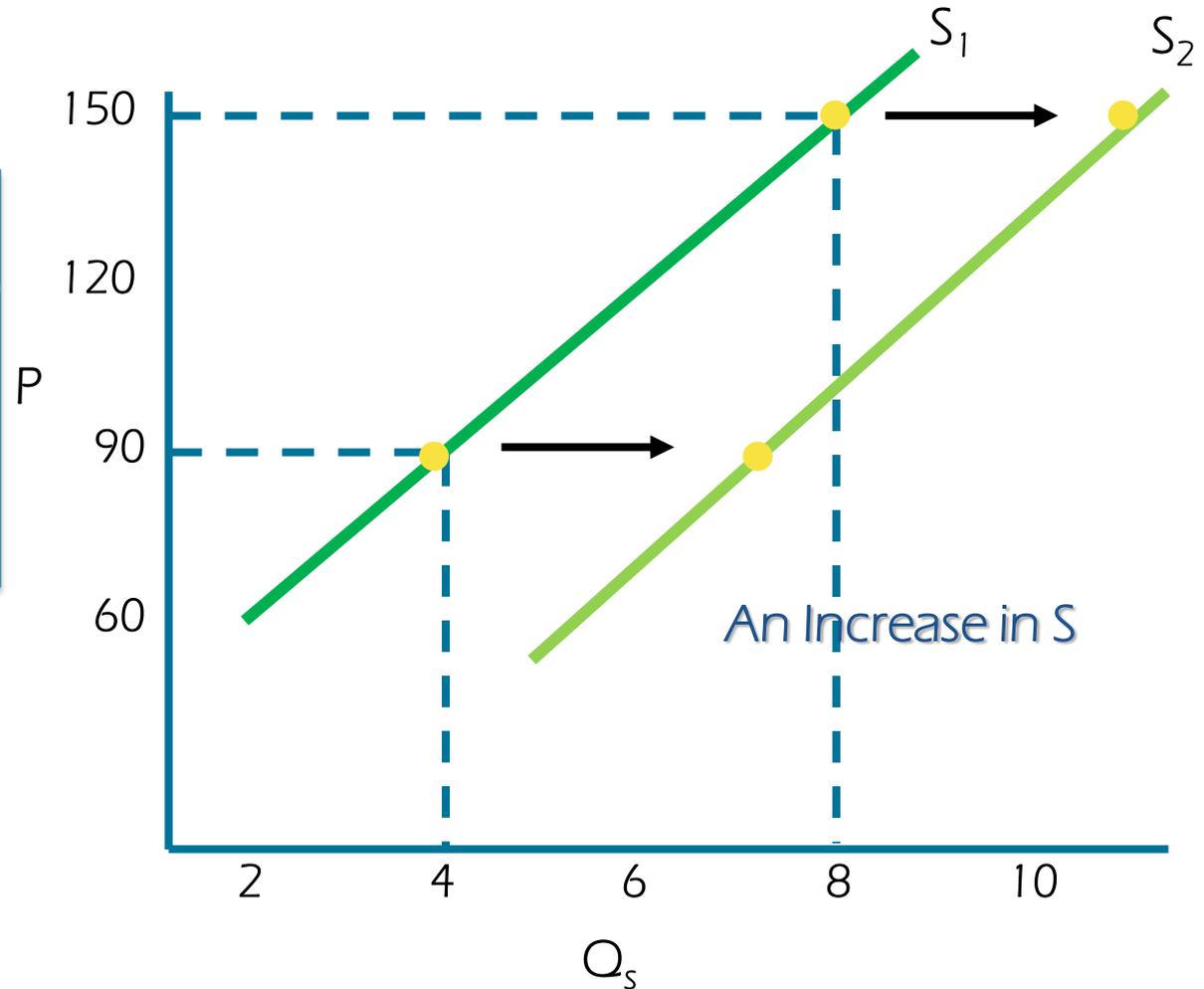
When something other than price changes, the whole curve shifts. There is a *change in supply*.

Changes in nonprice determinants can produce only a *shift* of the entire supply curve, not a movement *along* the supply curve.



Table and Chart: Change In Supply (S)

P	Q_{s1}	Q_{s2}
\$150	8	11
120	6	9
90	4	7
60	2	5





What can cause a supply curve to shift?



A change in any of the following can cause a supply curve to shift.

- the number of sellers in the market
- technology
- resource prices
- taxes and subsidies
- the expectations of producers
- the prices of other goods the firm could produce



IMPORTANT: KNOW THE DIFFERENCE
BETWEEN A CHANGE IN THE
QUANTITY SUPPLIED AND A CHANGE
IN SUPPLY!

- **Change in the quantity supplied** — movement *along* the supply curve, caused by a change in price
- **Change in supply** — *shifts* the entire supply curve, caused by a non-price change



How did you do?! If you didn't do as well as you'd like, review the margin notes and presentations and test yourself again.



CONTINUED IN TEST YOURSELF:
DEMAND AND SUPPLY