ECON 101
Introduction to Economics1

Session 4 – Supply

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Session Overview

- The current session looks at the producers' side of the market. The session analyzes producers and their behaviour patterns in the way they offer for sale, goods and services.

Session Objectives

- At the end of the session, the student should be able to:
  - Understand what constitutes supply of goods and services.
  - Appreciate the relation between price and quantity supplied and the Law of Supply
  - Understand the factors that determine whether consumers will buy more or less
  - Analyze the effect of changes in the various factors on price and quantity supplied
  - Understand the difference between Change in Supply and Change in Quantity Supplied and the factors responsible for each.

Session Outline

The key topics to be covered in the session are as follows:

- Supply
- Determinants of the shifts in the supply
- Change in Supply and Change in Quantity supplied
- Individual vs. Market supply

Reading List

- Lipsey R. G. and K. A. Chrystal. (2007). *Economics*. 11th Edition. Oxford University Press.

- Bade R. and M. Parkin. (2009). *Foundations of Microeconomics*. 4th Edition. Boston: Pearson Education Inc.,

- Begg. D. Fischer S. and R. Dornbusch. (2003). *Economics*. 7th Edition. McGraw-Hill

SUPPLY

- ***Quantity supplied*** is the amount of a good that sellers are willing and able to sell.

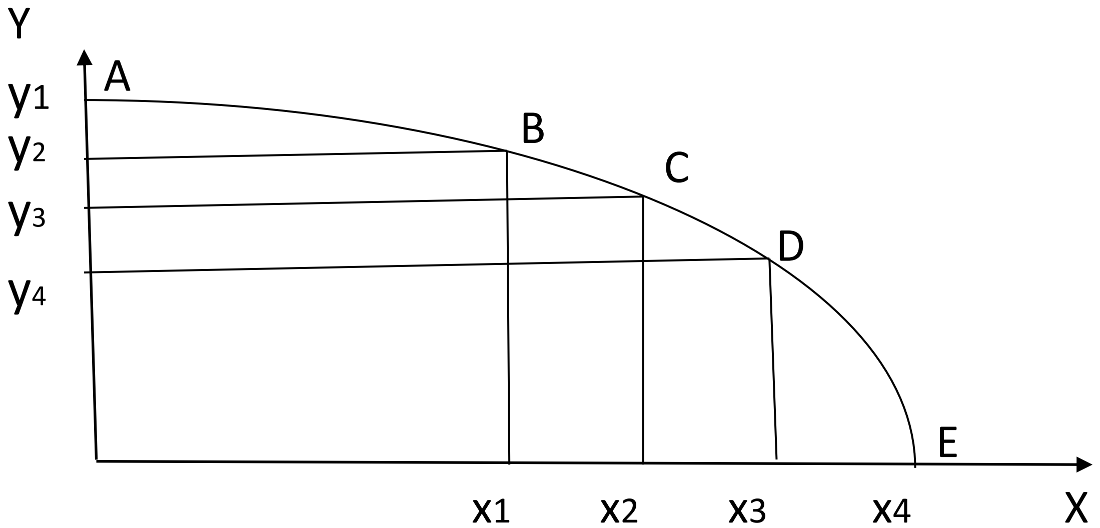
- Law of Supply
  - The ***law of supply*** states that, other things equal, the quantity supplied of a good rises when the price of the good rises.

Why does the Supply Curve Slope Upwards?

- The supply curve slopes upwards because of the *law of increasing cost* or *the law of diminishing marginal returns*.

- For a producer to supply additional unit of a good, he has to be motivated by the rise in the price of the good because the law says that the opportunity costs of producing more units increase.

Why does the Supply Curve Slope Upwards?



- In the diagram above, as the production of X increases, more and more units of Y need to be given away in order to produce additional units of X. This results in increasing additional cost of producing more of X. The producer therefore must be offered a higher price for him to produce more. Hence the upward sloping supply curve.

The Supply Schedule

Supply Schedule

The *supply schedule* is a table that shows the relationship between the price of the good and the quantity supplied.

Max Mart's Supply Schedule

Price of Ice-Cream Cone	Quantity of Cones Demanded
$0.00	0
0.50	0
1.00	1
1.50	2
2.00	3
2.50	4
3.00	5

Max Mart's Supply Schedule and Supply Curve

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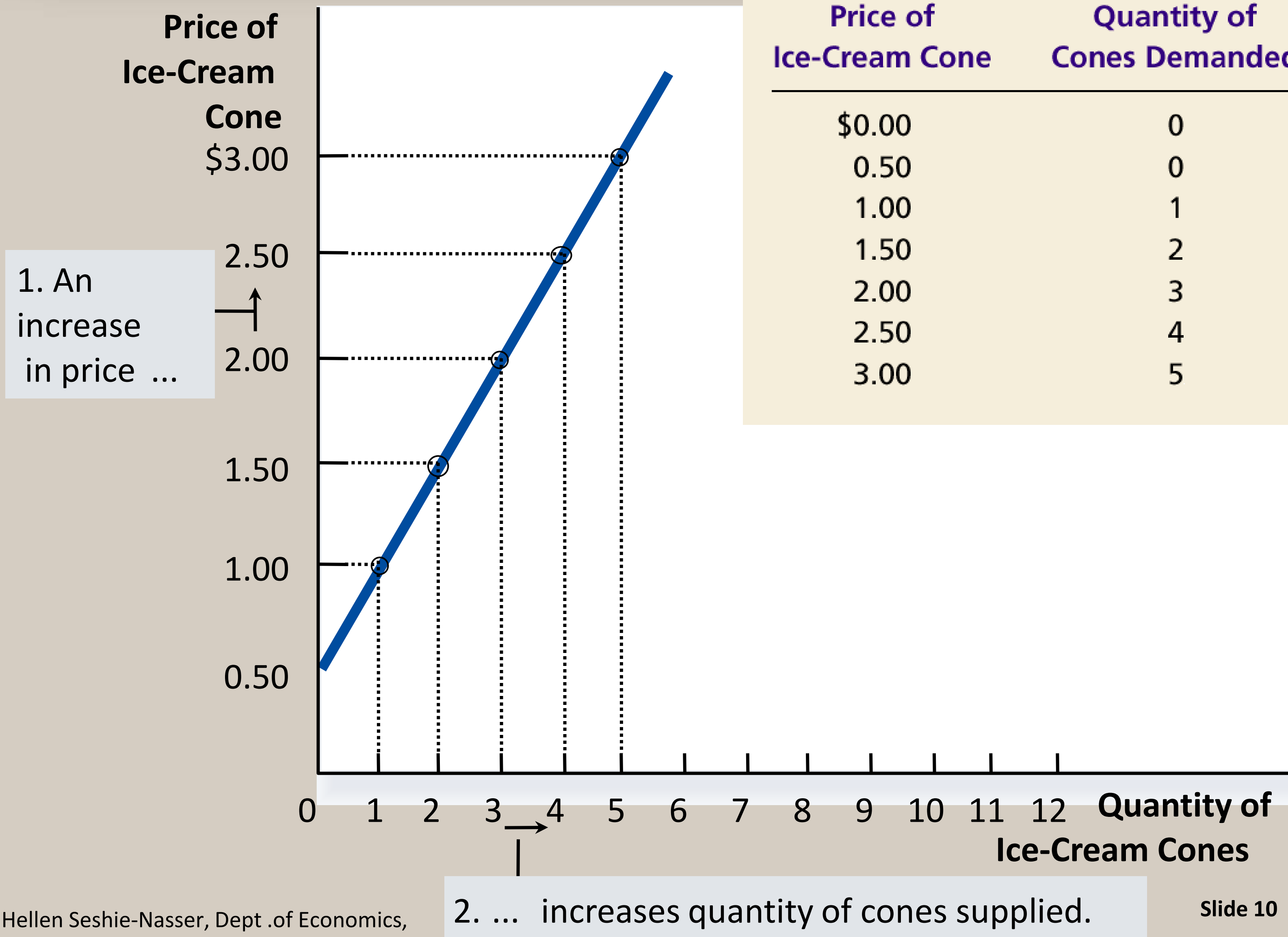

Change in Quantity Supplied

- Change in Quantity Supplied
  - Movement along the supply curve
  - Caused by a change in anything that alters the quantity supplied at each price.

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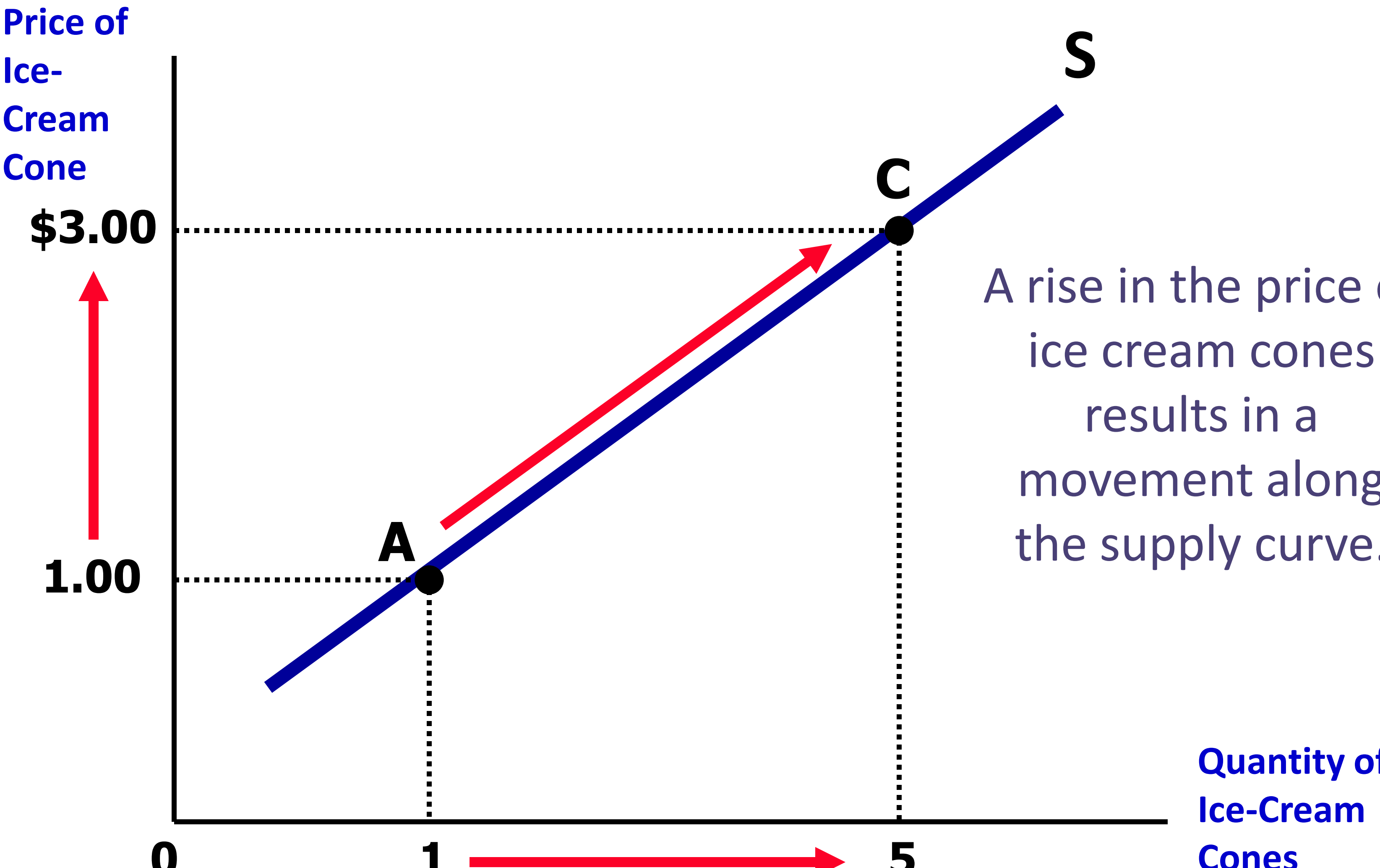
Change in Quantity Supplied



A rise in the price of ice cream cones results in a movement along the supply curve.

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Change in Supply

- Shifts in the Supply Curve
  - A shift in the supply curve, either to the left or right.
  - Caused by a change in a determinant other than price.

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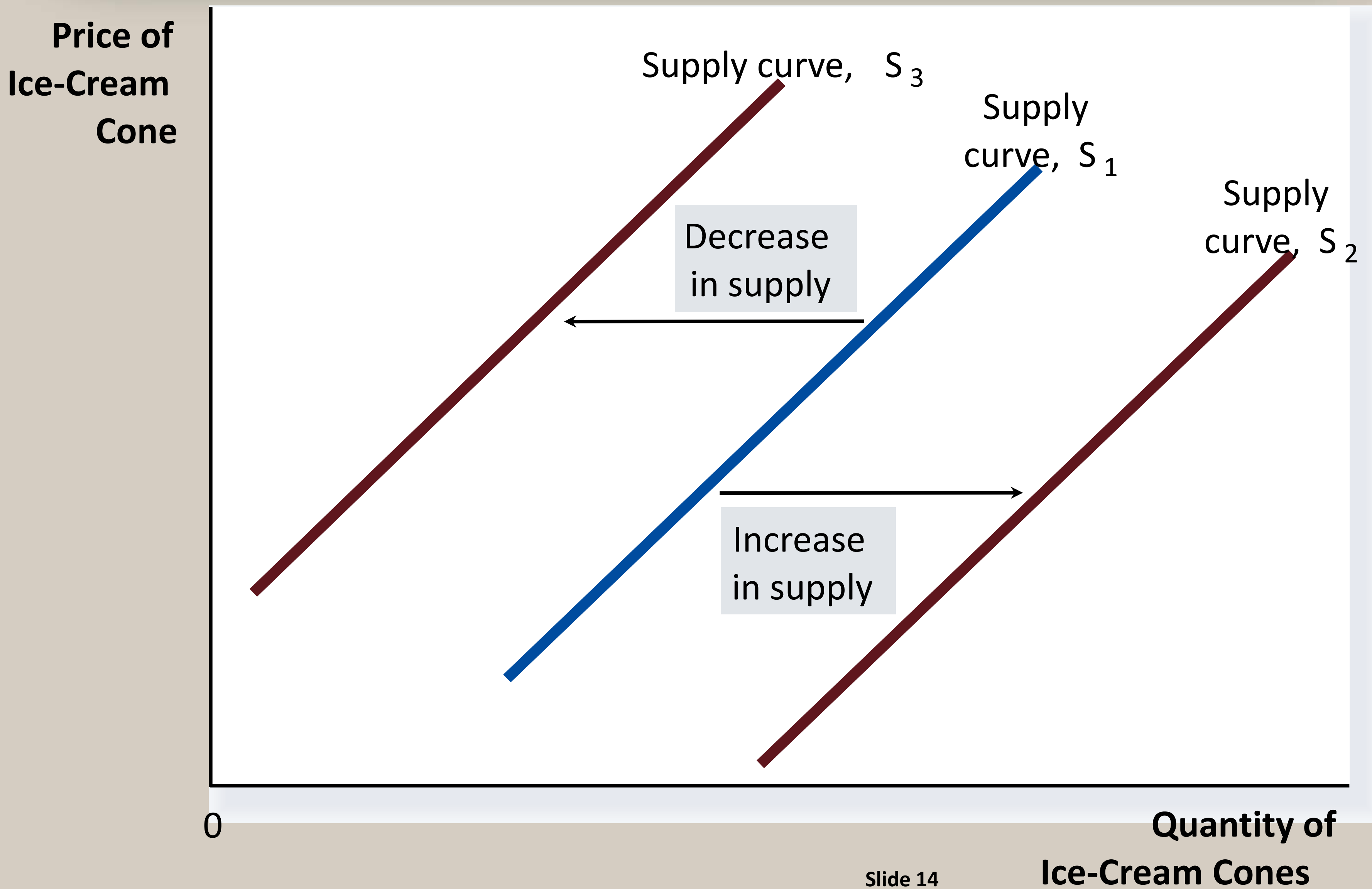
Shifts in the Supply Curve



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Determinants of Shifts in the Supply Curve

- Prices of relevant inputs/resources/factors of production. The higher the cost of inputs, the lower the supply, all things being equal.

- Technology: Advancement in technology increases supply

- Expectations : When a producer speculates that there will be a rise in the price in the future, he will supply less of the product now, and vice versa

- Government policy such as taxes and subsidies: Taxes increase the cost of production while subsidies are incentives to increase supply. Taxes reduce supply while subsides increase it. This is same as restrictions such as quotas and licensing. A example are restrictions on microfinance operations in Ghana in recent times.

Determinants of Shifts in the Supply Curve

- Number of sellers: The number of sellers may increase or decrease due to profits or losses in the market.
- Prices of related goods and services; joint and competitive goods.

Competitive products:

Competitive products are products that are produced with the same resources. An increase in the production of one will only occur if the production of the other is reduced. Most products are competitive.

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Joint products

Joint products are two or more outputs generated simultaneously, by a single manufacturing process using common input, and being substantially equal in value. Examples include petrol, gas, and kerosene from crude oil; butter, cheese, and cream from milk.

They are separately unidentifiable, and incur undifferentiated joint costs, until they reach the split-off point. An increase in the production of one will lead to increase in the production of the other. If the price of one of the products increases, producers in an attempt to increase production of the product in question, increase the production of the other(s).

Variables that Influence Sellers

Variable	A Change in This Variable . . .
Price	Represents a movement along the supply curve
Input prices	Shifts the supply curve
Technology	Shifts the supply curve
Expectations	Shifts the supply curve
Number of sellers	Shifts the supply curve

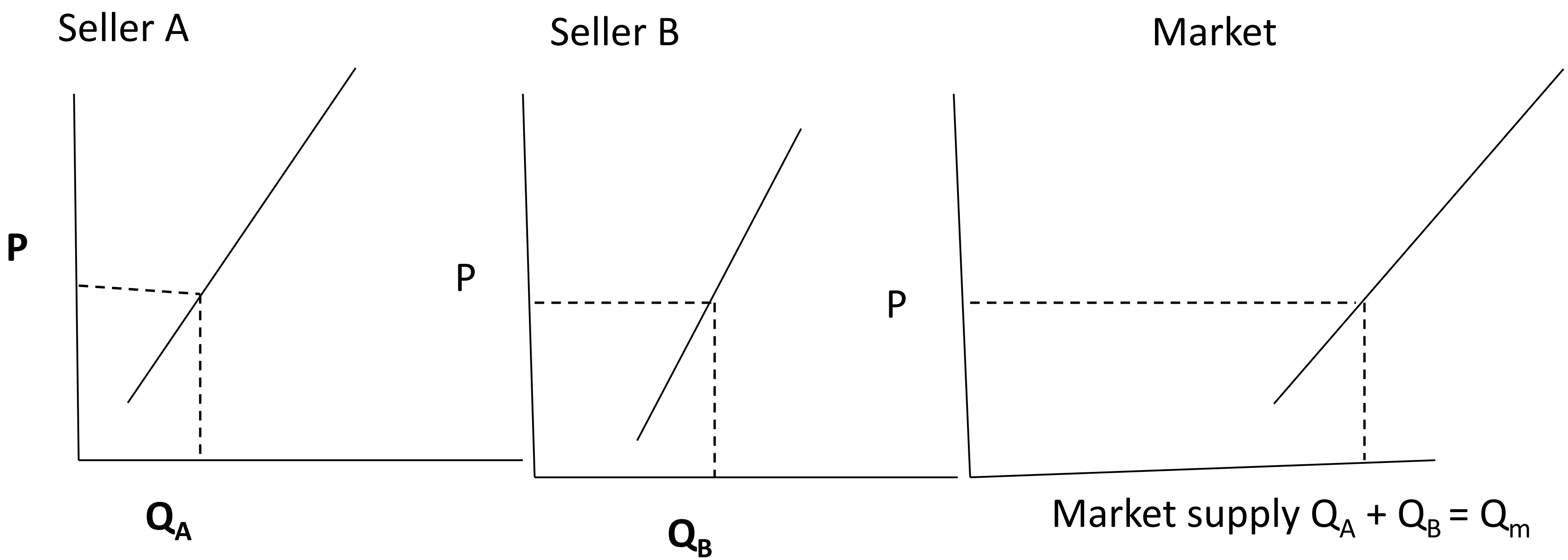
Market Supply versus Individual Supply

- An individual supply represents the price-quantity combinations for a single seller. The market supply represents the price-quantity combinations for all sellers of a particular good.

- Market supply refers to the sum of all individual supplies for all sellers of a particular good or service.

- Graphically, individual supply curves are summed horizontally to obtain the market supply curve.

Market Supply versus Individual Supply



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