Law of Supply

What Makes A Producer Provide the Quantity of Goods & Services?
What is Supply?

Supply indicates how much a good producers are **willing** and **able** to offer for sale per period at each possible price, other things constant.
Law of Supply

- As a good’s price increases (decreases), the quantity suppliers are willing and able to supply increases (decreases).
- The quantity supplied is usually directly related to its price.

↑       ↓
A Supply Schedule displays the quantity of a product supplied at each price.

<table>
<thead>
<tr>
<th>Price Per Bottle</th>
<th>Bottles Supplied Firm A</th>
<th>Bottles Supplied Firm B</th>
</tr>
</thead>
<tbody>
<tr>
<td>.74</td>
<td>200</td>
<td>100</td>
</tr>
<tr>
<td>.50</td>
<td>130</td>
<td>70</td>
</tr>
<tr>
<td>.36</td>
<td>75</td>
<td>50</td>
</tr>
<tr>
<td>.28</td>
<td>50</td>
<td>25</td>
</tr>
</tbody>
</table>
A Supply Curve shows a graphic representation of the quantities of a good supplied at various prices.

Graph 2 individual Supply curves for Firms A and B using the Supply Schedule on the previous slide.
Opportunity Cost of Supplying a Good

- Supplier costs are opportunity costs
- Suppliers choose among alternatives based on expected benefit/cost
- Producers must pay to use resources
- Resource price reflects its next-best alternative
- $-value of a resources’ foregone opportunities is the cost of supplying good
Changes in Supply vs. Change in *Quantity Supplied*

- Change in a good’s own **price** causes change in **quantity supplied**
  - **Movement** along the supply curve
- Change in supply caused by change in **determinant of supply**
  - **Shifts** supply curve
Determinants of Supply

- Technology
  - If more efficient technology is discovered, production costs will fall.
  - So suppliers will be more willing and able to supply more of the good at each price.

- Price of Relevant Resources
  - Those resources employed in the production of a good.
Determinants con’t

- Prices of Alternative Goods
  - Price of good that use some of the same resources as used to produce the good in question
- Producer Expectations
  - Shift production according to future prices
- Number of Producers
  - # of Prod. Increases # of supply
Derterminants con’t

- Government Restrictions
  - Taxes, quotas, licenses, etc.