Supply
- Individuals control the factors of production – inputs, or resources, necessary to produce goods.
- Individuals supply factors of production to intermediaries or firms.

The Law of Supply
- There is a direct relationship between price and quantity supplied.
  - Quantity supplied rises as price rises, other things constant.
  - Quantity supplied falls as price falls, other things constant.

Supply
- The analysis of the supply of produced goods has two parts:
  - An analysis of the supply of the factors of production to households and firms.
  - An analysis of why firms transform those factors of production into usable goods and services.
**The Law of Supply**

- The law of supply is accounted for by two factors:
  - When prices rise, firms substitute production of one good for another.
  - Assuming firms’ costs are constant, a higher price means higher profits.

**The Supply Curve**

- The supply curve is the graphic representation of the law of supply.
- The supply curve slopes upward to the right.
- The slope tells us that the quantity supplied varies directly – in the same direction – with the price.

**A Sample Supply Curve**

- Supply refers to a schedule of quantities a seller is willing to sell per unit of time at various prices, other things constant.
**Quantity supplied** refers to a specific amount that will be supplied at a specific price.

Changes in price causes changes in quantity supplied represented by a movement along a supply curve.

A movement along a supply curve – the graphic representation of the effect of a change in price on the quantity supplied.

If the amount supplied is affected by anything other than a change in price, there will be a shift in supply.
**Shift in Supply** – the graphic representation of the effect of a change in a factor other than price on supply.

**Shift Factors of Supply**
- Other factors besides price affect how much will be supplied:
  - Prices of inputs used in the production of a good.
  - Technology.
  - Suppliers’ expectations.
  - Taxes and subsidies.
### Price of Inputs
- When costs go up, profits go down, so that the incentive to supply also goes down.
- If costs go up substantially, the firm may even shut down.

### Technology
- Advances in technology reduce the number of inputs needed to produce a given supply of goods.
- Costs go down, profits go up, leading to increased supply.

### Expectations
- If suppliers expect prices to rise in the future, they may store today's supply to reap higher profits later.

### Taxes and Subsidies
- When taxes go up, costs go up, and profits go down, leading suppliers to reduce output.
- When government subsidies go up, costs go down, and profits go up, leading suppliers to increase output.
The Supply Table

- Each supplier follows the law of supply.
- When price rises, each supplies more, or at least as much as each did at a lower price.

From a Supply Table to a Supply Curve

- To derive a supply curve from a supply table, you plot each point in the supply table on a graph and connect the points.

From a Supply Table to a Supply Curve

- The supply curve represents the set of minimum prices an individual seller will accept for various quantities of a good.

From a Supply Table to a Supply Curve

- Competing suppliers’ entry into the market places a limit on the price any supplier can charge.
Individual and Market Supply Curves

- The market supply curve is derived by horizontally adding the individual supply curves of each supplier.

From Individual Supplies to a Market Supply

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