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# Supply

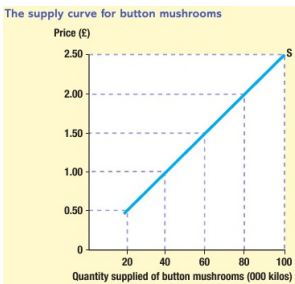
2017-18

# SUPPLY

- ▶ *Supply*: amount of a product which *suppliers* will offer to the market at a given price

Price per kilo (£)	Quantity supplied (000 kilos)
0.50	20
1.00	40
1.50	60
2.00	80
2.50	100

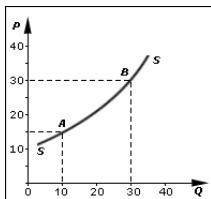
- ▶ These values can be plotted in a two-dimensional chart where the axes are as follows:
  - ▶ *x-axis*: quantity supplied
  - ▶ *y-axis*: price



# SUPPLY

## PROPERTIES

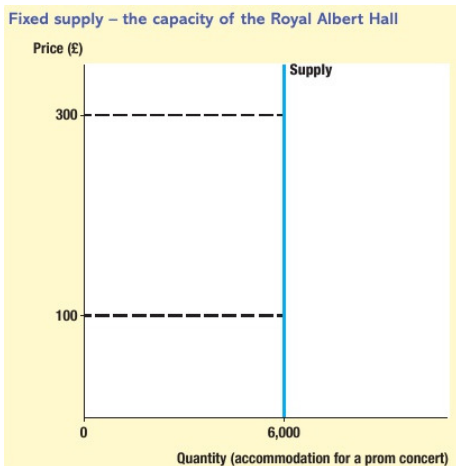
- ▶ *Positive relationship between price and quantity*
  - ▶ when price goes down, quantity supplied will go down
  - ▶ when price goes up, quantity supplied will go up
- ▶ relation can also be *non-linear*



# SUPPLY

## PROPERTIES

Supply curves can also be vertical (e.g., limited capacity)



## FACTORS LEADING TO A CHANGE IN SUPPLY

- ▶ Changes in the *costs of production* (e.g., wages, inputs, ...):  
if costs of production  $\uparrow$   
→ production  $\downarrow$
- ▶ Introduction of *new technology* (e.g., more efficient production methods):  
if introduction of new technology  
→ production  $\uparrow$
- ▶ *Indirect taxes* (e.g., VAT, excise duties):  
if indirect taxes  $\uparrow$   
→ production  $\downarrow$

# FACTORS LEADING TO A CHANGE IN SUPPLY

- ▶ *Government subsidies* (e.g., grant):  
if subsidies ↑  
→ production ↑
- ▶ *External shocks*:
  - ▶ World events (e.g., credit crunch):  
if borrowing is more difficult  
→ production ↓



## FACTORS LEADING TO A CHANGE IN SUPPLY

- ▶ *External shocks (cont'd):*

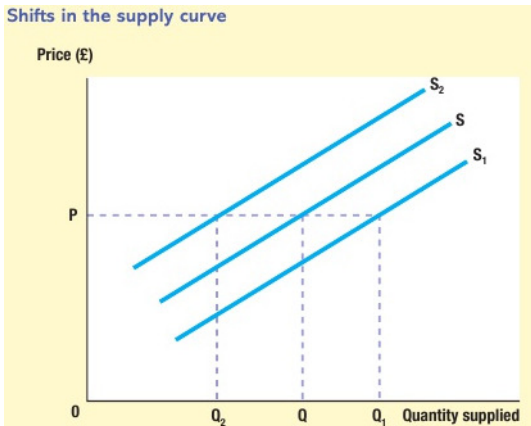
- ▶ *Weather*

- ▶ *Government*

- ▶ *Price of related goods*

# QUESTION

WHY WOULD THE SUPPLY CURVE SHIFT FROM (A)  $D$  TO  $D_1$ , (B)  $D$  TO  $D_2$





## KEY TERMS

- ▶ **Subsidy:** a grant given to producers, usually to encourage production of a certain good
- ▶ **Supply:** the amount of a product that suppliers make available to the market at any given price in a given period of time
- ▶ **Supply curve:** a line drawn on a graph that shows how much of a good sellers are willing to supply at different prices