2.3 Supply

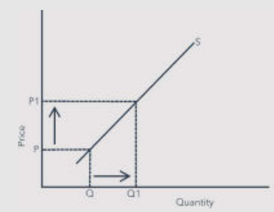
Key Words

Supply	The ability and willingness for firms to produce goods and services at each price level over a given time period.
Supply curve	A graph showing how the supply for a good or service varies with changes in its price.
Individual supply	The supply of a good or service by an individual producer.
Market supply	The total supply of a good or service as a result of adding together all the individual supplies together
Indirect tax	A tax on spending. An indirect tax is charged on producers of goods and services and is paid by the consumer indirectly. Eg VAT, sugar tax
Subsidy	An amount of money that the government gives directly to firms to encourage production and consumption
Productivity	One measure of the degree of efficiency in the use of factors of production in the production process. It is measured in terms of output per unit of input
Law of supply	For most products the quantity supplied varies directly with the price in a given time period.

Supply

The law of supply states that as the price of a good or service increases, its quantity offered by suppliers will also increase.

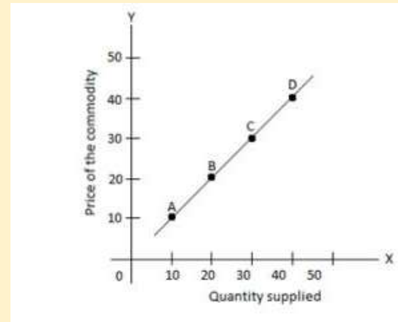
Simply put, it's a rule across the board that firms and other suppliers will always seek to sell their goods and services at maximum profit. So, when the price of those goods and services increases, suppliers will increase the amount of them that they're selling, which should allow them to make a greater profit.



Movements along the supply curve

The movement along a supply curve represents the variation in quantity supplied of the commodity with a change in its price and other factors remaining unchanged.

The movement in supply curve can be of two types – extension and contraction. Extension in a supply curve is caused when there is an increase in the price or quantity supplied ie a movement from A to B in the diagram below.

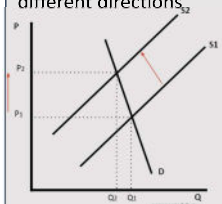


A contraction is caused due to a decrease in the price or quantity supplied of the good. This would be a movement from point D to C for example.

A movement along the supply curve will come about from a shift in the demand curve.

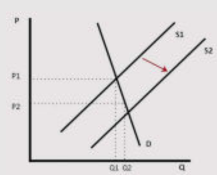
Shifts in Supply

An important consequence of a shift in supply is that both price and quantity will change but in different directions.



If there is a fall in supply the supply curve shifts left.This leads to a rise in the price and a fall in the supply.

If there is an increase in supply then the supply curve shifts to the right. As a result more is sold and the price falls



Factors leading to shifts in supply

A shift of the supply curve can be due to many reasons:

P – Productivity: an increase in productivity will lead to a shift to the right of the supply curve

I – Indirect tax. An increase in an indirect tax (a tax placed on a good or service) increases the costs for the producer of that good or service and therefore leads to a shift in the supply curve (to the left.

N – Number of firms. Increasing the number of firms or expanding existing firms will mean opening new factories and so increasing output leading to an increase in supply.

T – Technology. The introduction of new technology can increase efficiency and so increase the amount that can be produced. The use of computers greatly reduces costs due to reduced costs

S – Subsidies. A subsidy is a sum of money granted to a business by the government. A subsidy will lead to a reduction in costs for the business and therefore a shift to the right of the supply curve.

W – Weather. Climate is an important factor in the agriculture market. Changes in the weather can lead to changes in the amount farmers can supply

C – Costs of production. Any other factors that lead to a rise in the costs of production eg a rise in the minimum wage, will lead to a shift in the supply curve to the left.

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