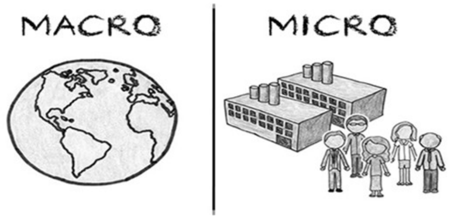
UNIT 2



MICROECONOMICS

Standard SSEMI2

Explain how the law of demand, the law of supply, and prices work to determine production and distribution in a market economy.

a. Define the law of supply and the law of demand.
b. Distinguish between supply and quantity supplied, and demand and quantity demanded.
c. Describe the role of buyers and sellers in determining market clearing price (i.e. equilibrium).
d. Illustrate on a graph how supply and demand determine equilibrium price and quantity.

Supply

Supply: the amount of a product that firms are willing to offer for sale at all possible prices that might prevail in the market

Producers attempt to maximize profits by selling what consumers want and by producing as efficiently as possible.

Supply

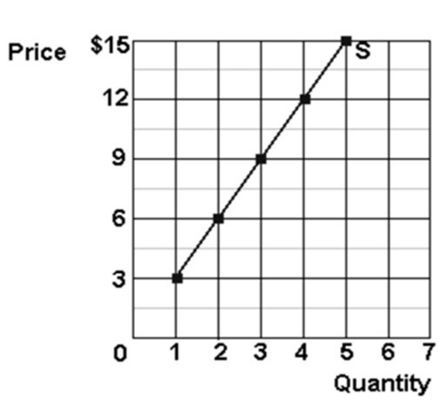
Supply Schedule: a table or schedule that shows the various quantities supplied of a product at all prices that might prevail in the market at a given time.

Price	Quantity Supplied per Month
$15	5,000
12	4,000
9	3,000
6	2,000
3	1,000

Supply

Supply Curve: the graphical representation of the supply schedule.

It contains the same information as the schedule but in a different format.

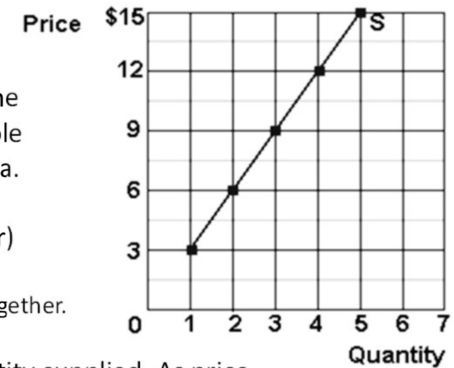


Supply

Law of Supply: as price rises the quantity a seller is willing and able to sell will increase and vice versa. (price and the quantity supplied are directly related to each other)

Direct means both variables move together.

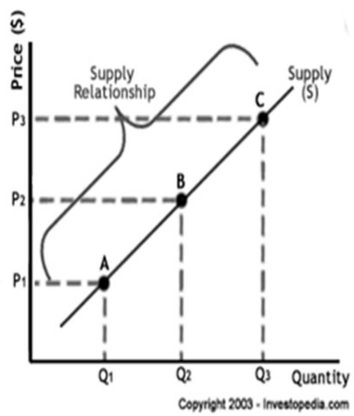
As price increases, so does quantity supplied. As price decreases, so does quantity supplied.



Supply

Change in Quantity Supplied: is a movement along the supply curve showing a change in the quantity of product supplied in response to a change in price.

This is simply a restatement of the law of supply.



Supply

Change in Supply: when firms are now willing to offer different amounts of the product for sale at the same prices as before.

This is shown as a shift in the curve, not a movement along the curve.

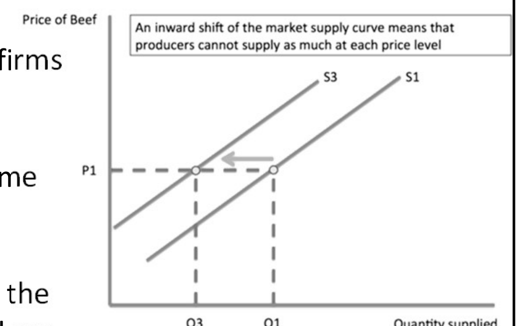
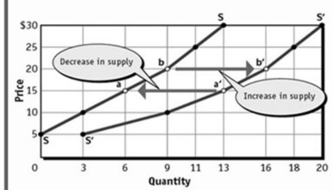


Figure 5.3

A Change in Supply

Quantity Supplied

Price	Old (SS)	New (S'S')
$30	13	20
25	11	18
20	9	16
15	6	13
10	3	9
5	0	3



Supply Shifters

There are several factors that can shift the supply curve to the right or left. These factors have nothing to do with the price of the product.

G
R
E
E
T
S

G **Government Actions**: When the government regulates a firm's product, causing costs to rise and supply to fall.

- Ask yourself - how much more expensive it is to comply with federal standards on exhaust emissions on cars?
- Taxes
- Subsidies

R **Resource costs**: When a firm pays less for its land, labor, or raw materials, it is willing to supply more now.

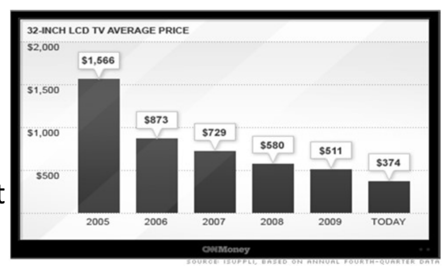
The reason is that the firm is making more profits as their costs fall. If the cost of resources increases, the firm will supply less.

E **Expectations of Sellers**: expectations about the future determinants of supply, meaning future prices, future input costs and future technology
- More flights
- More Trains
- More Gas

E **Education**: If many workers in a market improve their education, knowledge, and skills related to the production process, their labor productivity will increase.

T **Technology**: the introduction of a new machine or process will lower the firm's costs and will result in an increase in supply.

Think about flat screen TV's and computers. What has happened to their costs over the last several years?



S **Number of Sellers**: more firm's leads to more supply, fewer firms leads to less supply.