

3.6

Changes in Supply



As a Young Historian, I will be able to...

Input Costs & Changes in Supply

There are several factors that can lead to a shift in the supply curve

Any change in the cost of an input (raw materials, machinery, labor) will affect supply

Rise in cost will cause a fall in supply because it has become too expensive to produce

Fall in cost will cause increase in supply at all levels



Effects of Input Costs

Supplier sets output at most profitable levels where price is equal to marginal costs

If cost of inputs rise, marginal cost may become higher than price & not profitable!

Technology can also lower production costs in industries, & continue to do so!

Are there dangers of this?



Government Policies & Changes in Supply

Subsidy- Government payment that supports a business or market

These will lower costs, allowing firms to produce more goods

For example, this was done during WWII to protect nations against food shortages

Sometimes governments in developing nations will subsidize manufacturing to protect young industries





Are subsidies controversial?



What about when farm subsidies are paid to take out land to raise prices?

Excise Taxes & Supply

Excise tax- Tax on production or sale of a good

Government can reduce supplies of some goods by using this, it increases production costs by taxing them for each unit sold

Regulation- Government intervention in market that affects the price, quantity, or quality of a good



This is to promote safety in goods & services, such as food standards or worker safety



Other Non-Price Determinants

1. **Specific changes in the global economy & supply can affect U.S. trade**
(we import A LOT)
2. **Expectations can change prices & supplies,**
think of farmers holding back goods to sell
when prices raise!

3. **The number of competitors in the market can change supply, this can cause same items to shift to multiple firms**



Where to locate???

Firms have to decide upon a host of factors of where to locate their businesses.

What do you think some are?

1. Transportation- where do they have to move goods

2. Location of Raw Materials- Where do supplies come from?



3. Location to consumers- How can you get product to people quickly



