3.4

Fundamentals of Supply

As a Young Economist, I will be able to…

- Understand how the law of supply explains the effect of changes in price on quantity supplied.
- Interpret a supply schedule and a supply graph.
- Examine the relationship between elasticity of supply and time.

Effect of Price on Supply

Supply- Amount of a good or service that is available

How do producers know how much to supply?

Law of supply- Producers offer more of a good/service as price increases & less as price falls

Quantity Supplied- How much of a good or service a producer is willing and able to sell at a specific price

Law of Supply

Develops from the choices of both current and new producers of a good or service

Price increases are incentives for new firms to enter the market to make profits

If prices fall, some firms will produce less & may drop out of market

Effect of Price on Production

If firms are earning by selling a good or service, then an increase in the price will increase profit

This will sometimes encourage firms to produce more products & faster

Let's talk Pizza!

Effect of Price on Number of Supplies

Profits appeal to producers in the market & to people who may decide to join market

What are some key markets that you are interested in joining today?

Think about music fads & changes throughout history

The U.S. free market is open to new suppliers and markets

Supply Schedules

Supply Schedule- Relationship between price & quantity supplied for a specific good or service

Or how much of a good or service a supplier will offer at various prices

Variables- Factors that can change

Think back to the pizza, we could see how supply & prices interact

Changes in Quantity Supplied

Economists use supply to explain the relationship between price & quantity supplied

Market Supply Schedule- Relationship between prices & total quantity supplied by ALL firms in a particular market

Changes in Quantity Supplied

Economists use supply to explain the relationship between price & quantity supplied

Market Supply Schedule- Relationship between prices & total quantity supplied by ALL firms in a particular market

Supply Curve- Graphic representation of a supply schedule.

Market Supply Curve- Graphic representation of a market supply

Elasticity of Supply

Elasticity of supply- measures how firms will respond to changes in the price of a good or service

Think of an elastic rubber band; how far can it stretch before breaking?

When elasticity is greater than 1, supply is very sensitive to changes in price & is considered elastic

If its lower than 1 & not responsive to change, then it is inelastic

Elasticity Over a Short Time

Think of fruit trees, can they make profit quickly or expand their markets?

Due to these issues, it would be decided that fruit trees are inelastic in the short term

Farmers have also invested in the land and trees, can they easily cut down on prices?

Jobs, such as hairdressers, are considered highly elastic as they can change quickly!

Elasticity over a Longer Time

Think back to the fruit trees, what happens to his productivity over years after trees are planted?

If prices continue downward over several years, will the farmer stay with his current grow schedule?

If you have years, rather than weeks, you can plan for more changes

This makes decisions elastic in the long run