

Supply
(O'Sullivan CH 5)

Section 1 – Understanding Supply

The Law of Supply

- Supply – the amount of goods available
- Law of supply – tendency of suppliers to offer more of a good at a higher price
- Quantity supplied – the amount a supplier is willing and able to supply at a certain price
- Higher Production – The promise of higher revenues for each sale encourages more production
- Market Entry – the better a good or service is doing the more firms it draws into that market.

The Supply Schedule

- Supply schedule- a chart that lists how much of a good a supplier will offer at different prices.
- Variables – a factor that can change
- Market Supply Schedule – a chart that lists how much of a good all suppliers will offer at different prices

The Supply Graph

- Supply Curve – a graph of the quantity supplied of a good at different prices
- Market Supply Curve – a graph of the quantity supplied of a good by all suppliers at different prices

Supply and Elasticity

- Elasticity of Supply – a measure of the way quantity supplied reacts to a change in price

Elasticity of Supply and Time

- Elasticity of Supply in the Short Run – a firm cannot easily change output in the short run.
- Elasticity in the Long Run – In the long run firms have more control over output.

Section 2 – Costs of Production

Labor and Output

- Marginal Product of Labor- the change in output from hiring one additional unit of labor
- Increasing Marginal Returns – a level of production in which the MPOL increases as the number of workers increases
- Diminishing Marginal Returns – a level of production in which the MPOL decreases as the number of workers increases.
- Negative Marginal Returns – a level of production in which workers are getting in each other's way.

Production Costs

- Fixed Costs – a cost that does not change, no matter how much of a good is produced
- Variable Costs- a cost that rises or falls depending on how much is produced
- Total Cost- fixed cost plus variable costs
- Marginal Cost- the cost of producing one more unit of a good

Setting Output

- Marginal Revenue – the additional income from selling one more unit of a good
- Marginal Cost – the cost of producing one more good
- Responding to Price Changes

The Shutdown Decision

- operating cost –the cost of operating a facility, such as a store or factory

Section 3 – Changes in Supply

Input Costs

- Effect of Rising Costs
- Technology – reduce production costs

Government's Influence on Supply

- Subsidies –a government payment that supports a business or market
- Taxes – I.E. Excise Tax – a tax on the production or sale of a good
- Regulation – government intervention in a market that affects the production of a good

Supply in the Global Economy

Other Influences on Supply

- Future Expectations of Prices
- Number of Suppliers

Where Do Firms Produce?