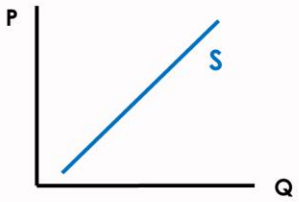
7. Supply

Basic Supply Curve

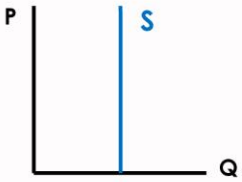
Basic Law of Supply
↑Price P ↑Quantity Supplied Q_s
and ↑P ↑Q_s



Perfectly Inelastic Supply

↑↓**P will not ↑↓Supply**

Situation where the quantity supplied **(Qs)** is fixed and must be sold (at any price) i.e. perishable goods

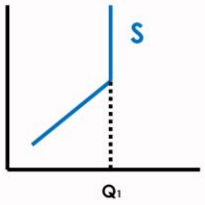


Minimum Supply

A **minimum price** (P_1) is established by suppliers below which **supply = 0** i.e. Trade Union imposing minimum price at which workers will be supplied

Maximum Output (Limited Capacity)

A point is reach where more **cannot be supplied (Q_1).** Producers cannot increase output due to constraints in their factory, i.e. lack of inputs i.e. machinery, raw materials



What 5 Factors Affect Supply?

$$S_x = f\ (P_x, P_r, C, T, U)$$

Supply of Good X (S_x) depends on:

1. The Price of Good X (**Px**)
2. The Price of Related Goods (**Pr**)
3. Cost of Production (**C**)
4. State of Technology (**T**)
5. Unforeseen Circumstances i.e. adverse weather (**U**)

P_x

Basic Law of Supply: ↑Price P ↑Quantity Supplied Q_s *and* ↓P ↓Q_s

P_r

Related Goods are goods which could be produced instead of **Good X**. If the price of a related good (**Pr**) rises, the supplier will shift production away from **Good X** and increase the supply of **Good R** will rise at the expense of **Good X**

C

SUPPLY FALLS if…
- Labour costs *rise*
- Raw material (input) costs *rise*
- Taxes *rise*
- Grants/Subsidies to firms *fall*

SUPPLY RISES if…
- Labour costs *fall*
- Raw material (input) costs *fall*
- Taxes *fall*
- Grants/Subsidies to firms *rise*

T

As technology **improves**, supplying (distributing) goods becomes easier and less costly

U

Factors outside the control of the firm might jeopardise shipments i.e. warehouse fire, transport difficulties due to adverse weather or war