Law of Supply

Price ↑ Supply ↑

Price ↓ Supply ↓

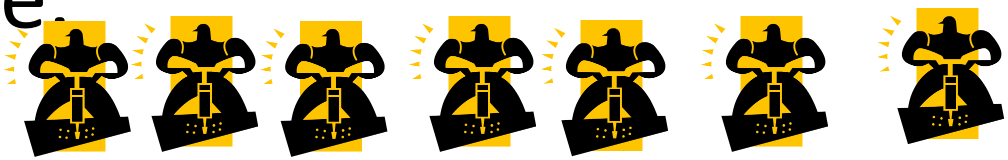
*Direct Relationship

*Why is this the case?

- Profit incentive motivates people to produce
- At some point, the higher the price, the less likely people are to buy (excess supply)

Law of Diminishing Marginal Returns

A level of production in which the marginal product of labor decreases as the number of workers increase.



At some point, adding only 1 more factor of production will not increase production. Why?

Factors Influencing Supply

Input Costs:

Change in the cost of what goes into making the products or providing the services.

Input Costs

Supply

Example: Price of cheese increases.

Dominoes will supply less pizza b/c only so much $ allowed for inputs.

Factors Influencing Supply

- Technology
  - Advances in technology can lower production costs
  - Technology ↑ Supply ↑
  - Example: JP Edwards adds a new deep fryer.

    Produces more wings in faster time.

    Supply of wings at JP's increases

Factors Influencing Supply

- Govt. Influence
  - Subsidies – govt. payment that supports a business or market
    - Govt. protects industries to allow them to grow.
    - Example: Protect new energy industries.
      - Energy Industries ↑ Supply ↑

Factors Influencing Supply

- Govt. Influence
  - Taxes
    - Excise tax – tax on production or sale of goods/services
    - Example: Cigarrette Tax ↑ Supply ↓

    - Income Tax – tax on profits
    - Example: Higher Profits = Taxes ↑ Supply ↓

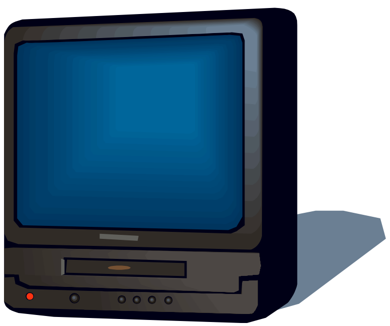
Factors Influencing Supply

- Govt. Influence
  - Regulation – govt. intervention in a market affects price, quantity and quality
  - Example: Environmental Regs.

Supply

Factors Influencing Supply

- Global Economy – goods or services produced in one country and imported to another country



  - Example: China and TV's

Wages in China ↑

Supply of TV's ↓

Factors Influencing Supply

- Number of Firms in the Industry
  - More suppliers = More supply of a good or service available
  - Example:

    - Pizza Industry
    - # of Pizza Places ↑ Supply of Pizza ↑

  - Future expectations of prices
    - Price Expected ↑ # of Suppliers ↑