

FACTORS THAT AFFECT SUPPLY

Learning objectives:

- The nature of supply
- The relationship between price and supply
- Causes of shifts in the supply curve

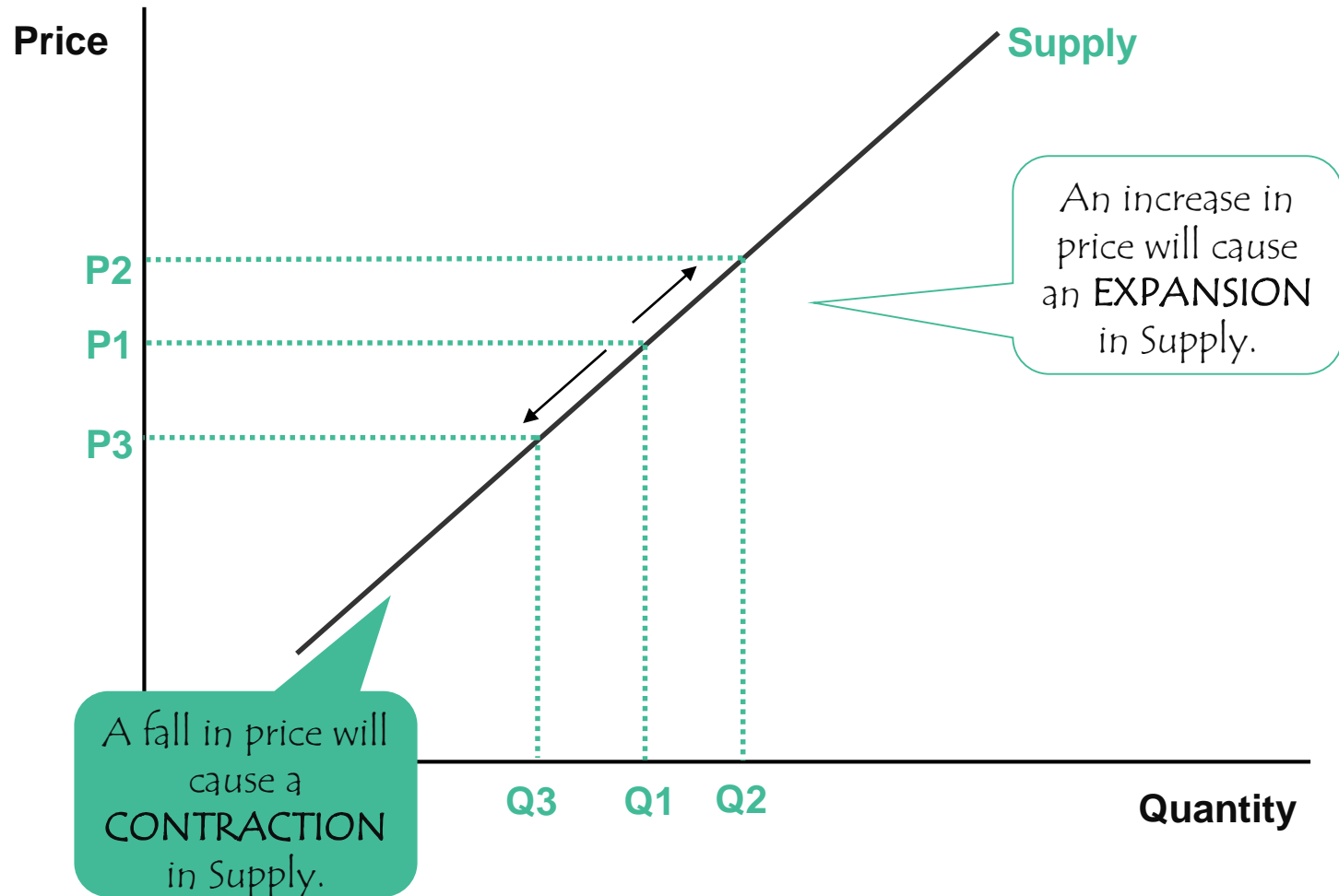


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THE LAW OF SUPPLY

- Supply is the quantity of a good or service that a producer is willing and able to supply onto the market at a given price in a given time period
- The basic law of supply is that as the market price of a commodity rises, so producers **expand** their supply onto the market
- A supply curve shows a relationship between **price** and **quantity** a firm is willing and able to sell

THE SUPPLY CURVE



EXPLAINING THE SUPPLY DECISION

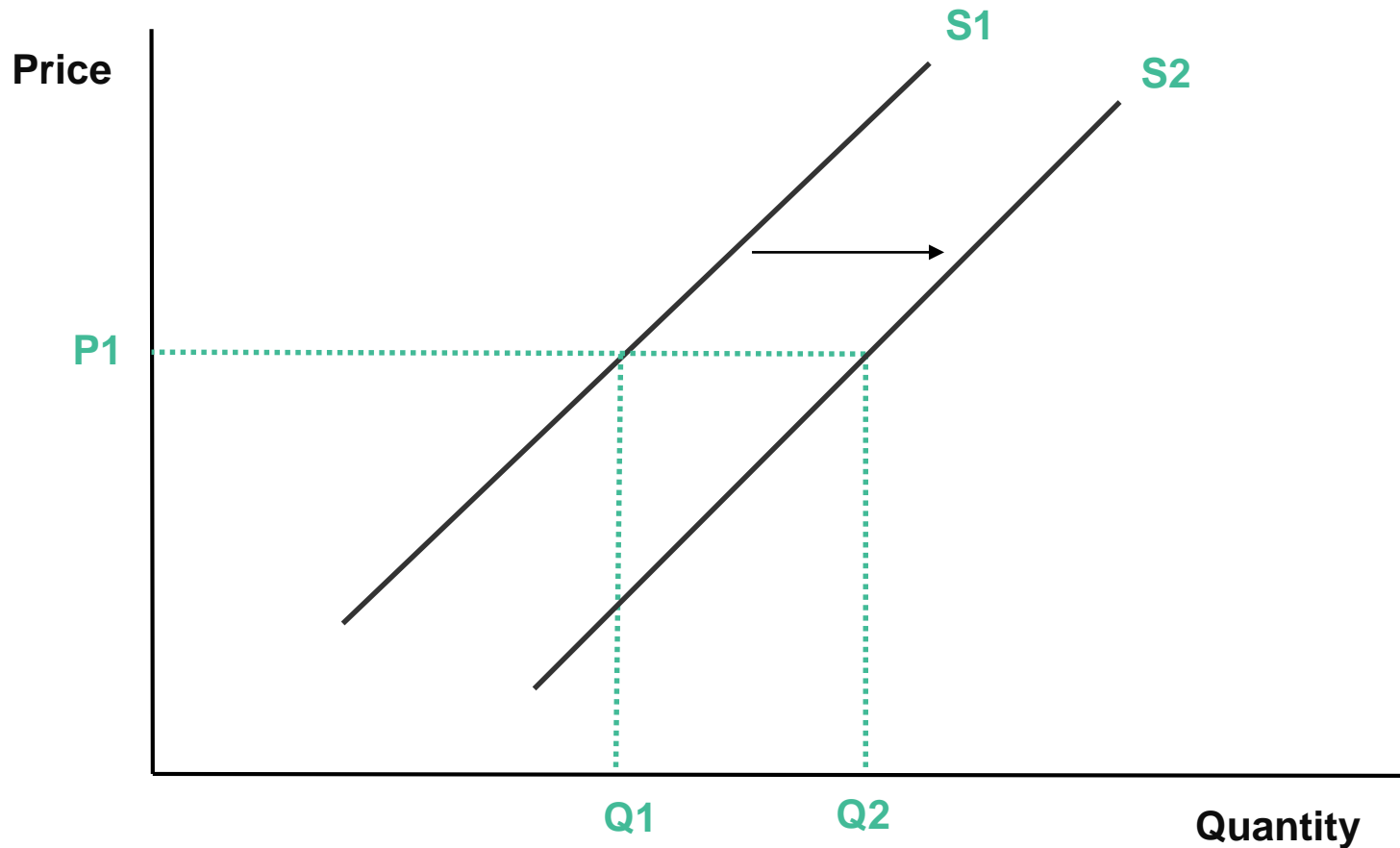
The “quantity supplied” is the amount sellers are willing and able to offer for sale at a single price

The change in the price of the good itself causes a **movement ALONG** the supply curve

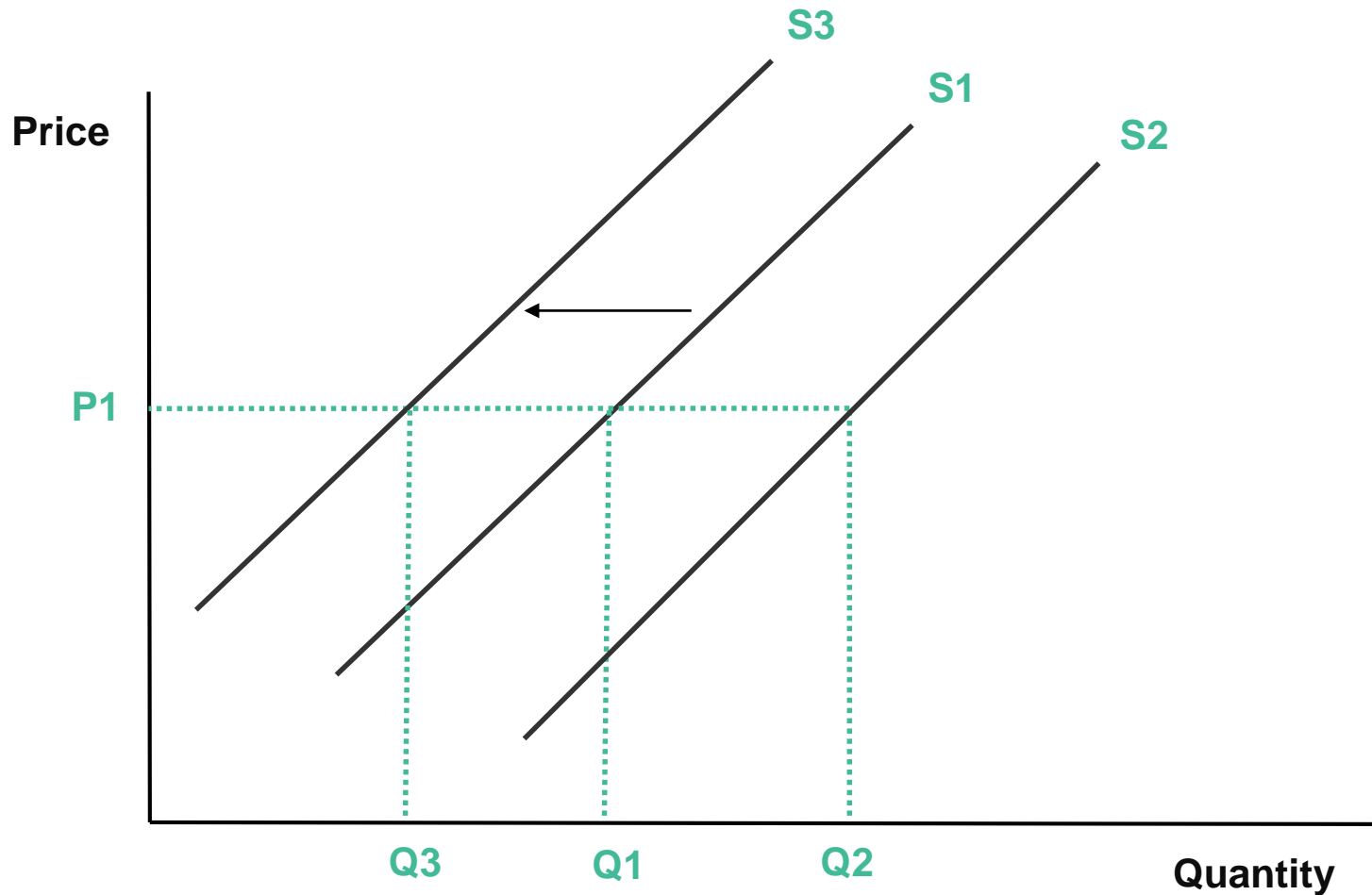
Supply curves normally slope upward. Why?

- Rising prices act as an incentive for producers to expand output – potential for higher profits

AN OUTWARD SHIFT IN THE SUPPLY CURVE



AN INWARD SHIFT IN THE SUPPLY CURVE



COSTS OF PRODUCTION

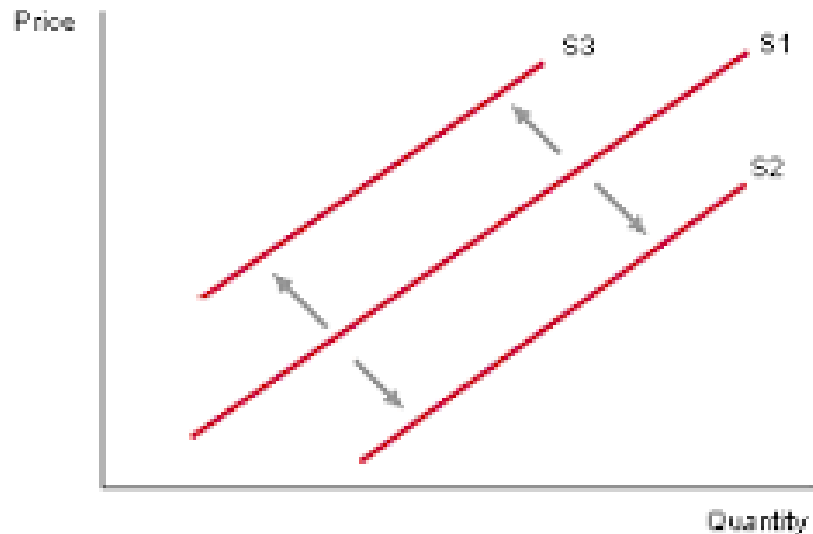
Assuming the price is fixed:

- If production costs rise, sellers are likely to reduce supply, because their profit will be reduced.
- If production costs fall, supply would increase because production becomes more profitable.
- The availability of resources will also affect supply.

INDIRECT TAXES

Are taxes imposed by the Government on spending (VAT and duties).

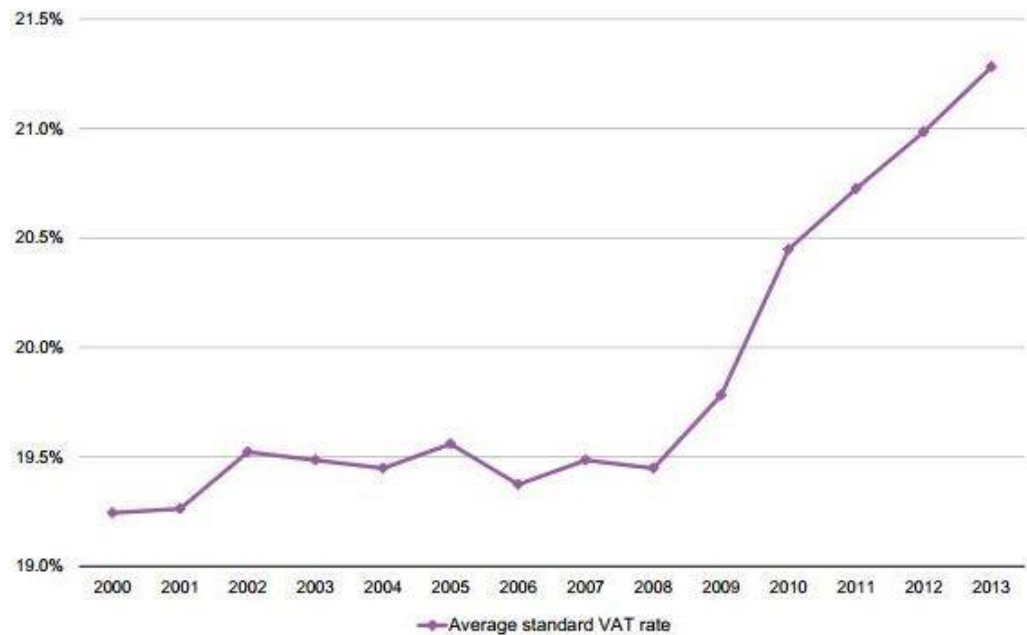
Such taxes have an affect on supply because they represent a cost to firms.



INDIRECT TAXES

- **VAT** (value added tax): is an **advalorem tax**. It means that a percentage is added to the price of a good when sold.

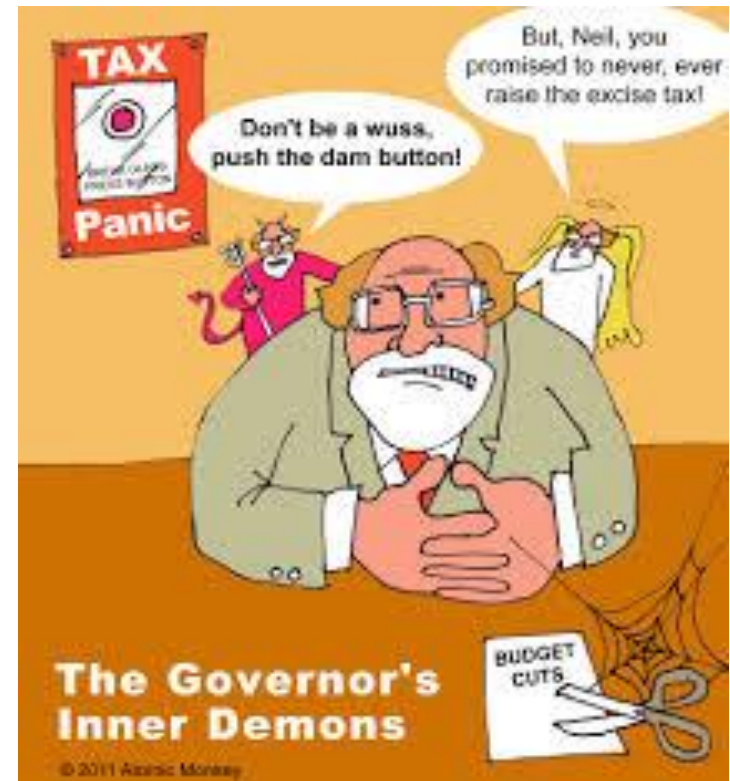
Graph 10: Development of average standard VAT rate, EU-27



Source: Commission services

INDIRECT TAXES

- **Excise duties**: are a **specific** or **unit tax**. That means that a lump sum is added to the price of a good.



SUBSIDIES

When the Government gives money to businesses in the form of a grant.

May be given to firms to encourage them to produce a particular product.



"Sorry sir, you can't get government subsidies for your Farmville farm."

PAUSE 1 FOR AN EXERCISE

The US Government has granted large subsidies in recent years to the producers of biofuels. It is estimated that subsidies to biofuel producers in the USA are between USD5.5 billion and USD7.3 billion a year. These subsidies have been promoted as a way to address concerns relating to the:

- Environment
- Energy security
- Rural Development

- a) Why is the US Government offering subsidies to the producers of biofuel?
- b) Using a diagram, show the effect of these subsidies on the supply of biofuel in the USA.

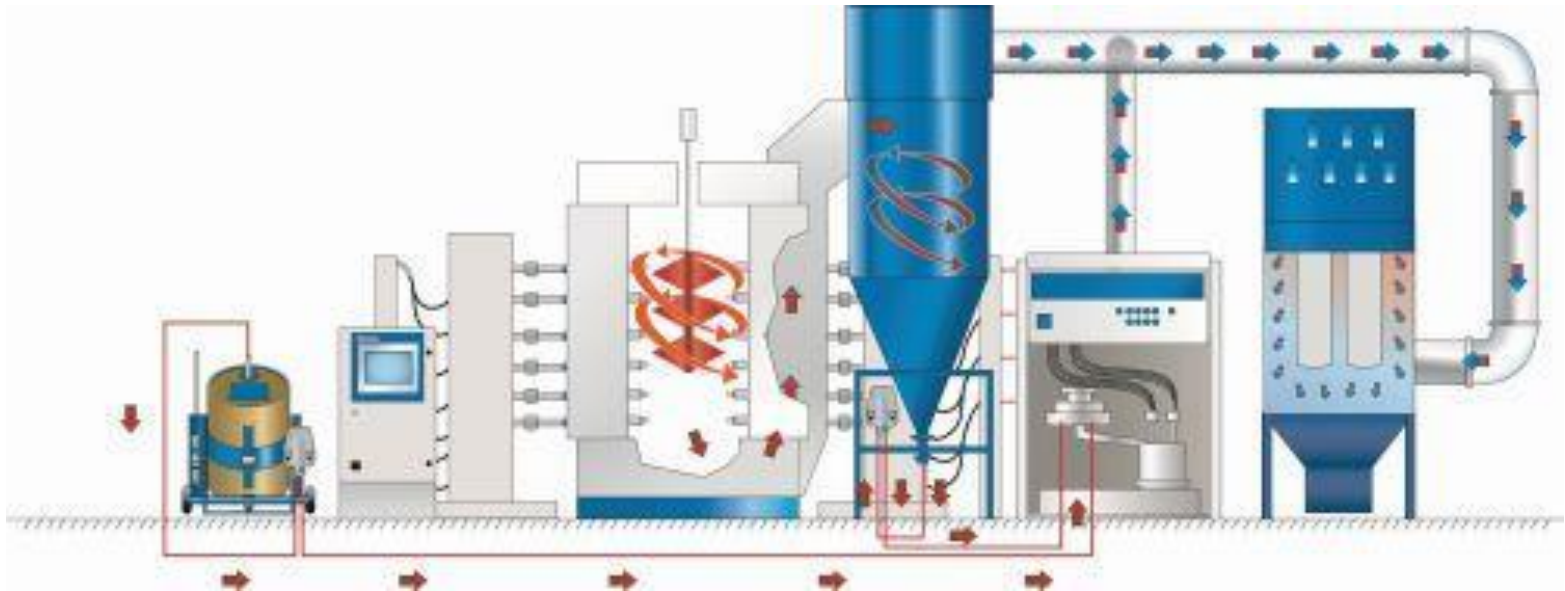
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CHANGES IN TECHNOLOGY

New technology will help to lower production costs so firms are likely to offer more for sale.



PAUSE 2 FOR AN EXERCISE

In 2006, a new design system for multi-Raschel lace (a type of fabric) was developed by Southern Yangtze University. It won second prize in a Chinese technology and science award and has been adopted by around 30 Chinese producers. The new system:

- Helps to shorten the product development cycle
 - Helps to improve the quality of design
 - Increases design efficiency in multi-Raschel lace products
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- a) How will the new design system help Chinese fabric producers?
 - b) Using a diagram, explain the effect the introduction of the new system will have on the supply of multi-Raschel lace products in the market.

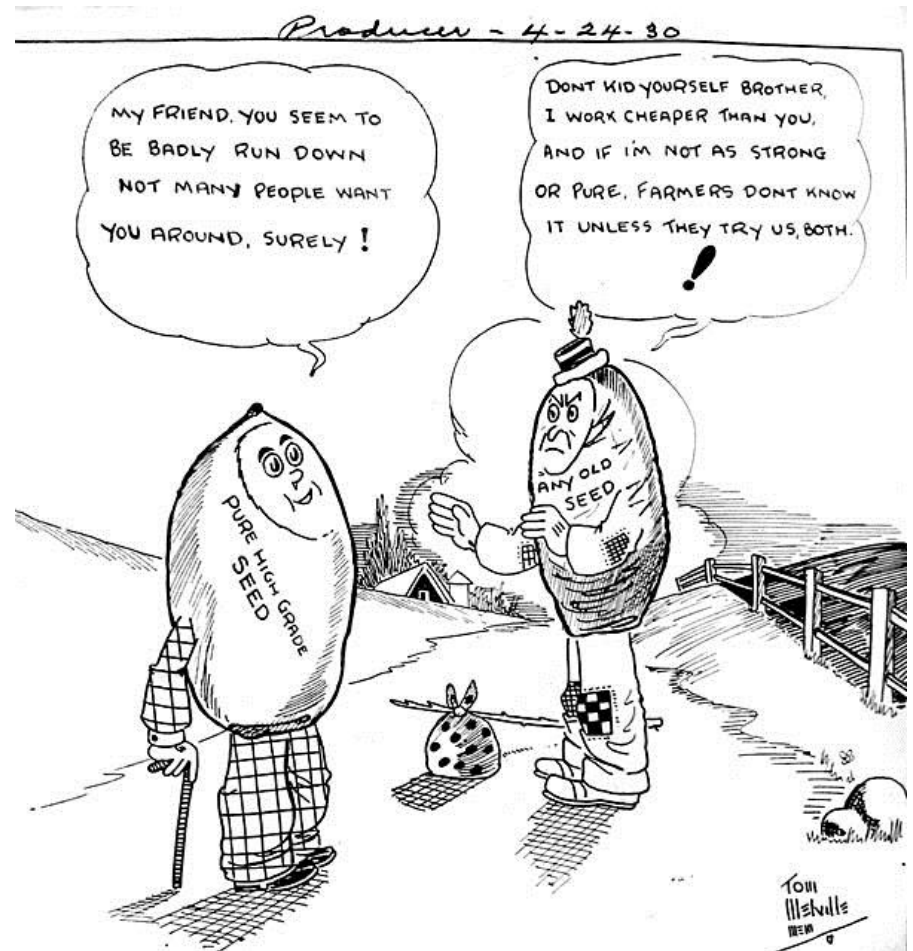
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NATURAL FACTORS

The production of some goods is influenced by natural factors such as the weather, natural disasters or infestation.



NATURAL FACTORS

Where can you find better growing conditions?

Qatar

?



Brazil

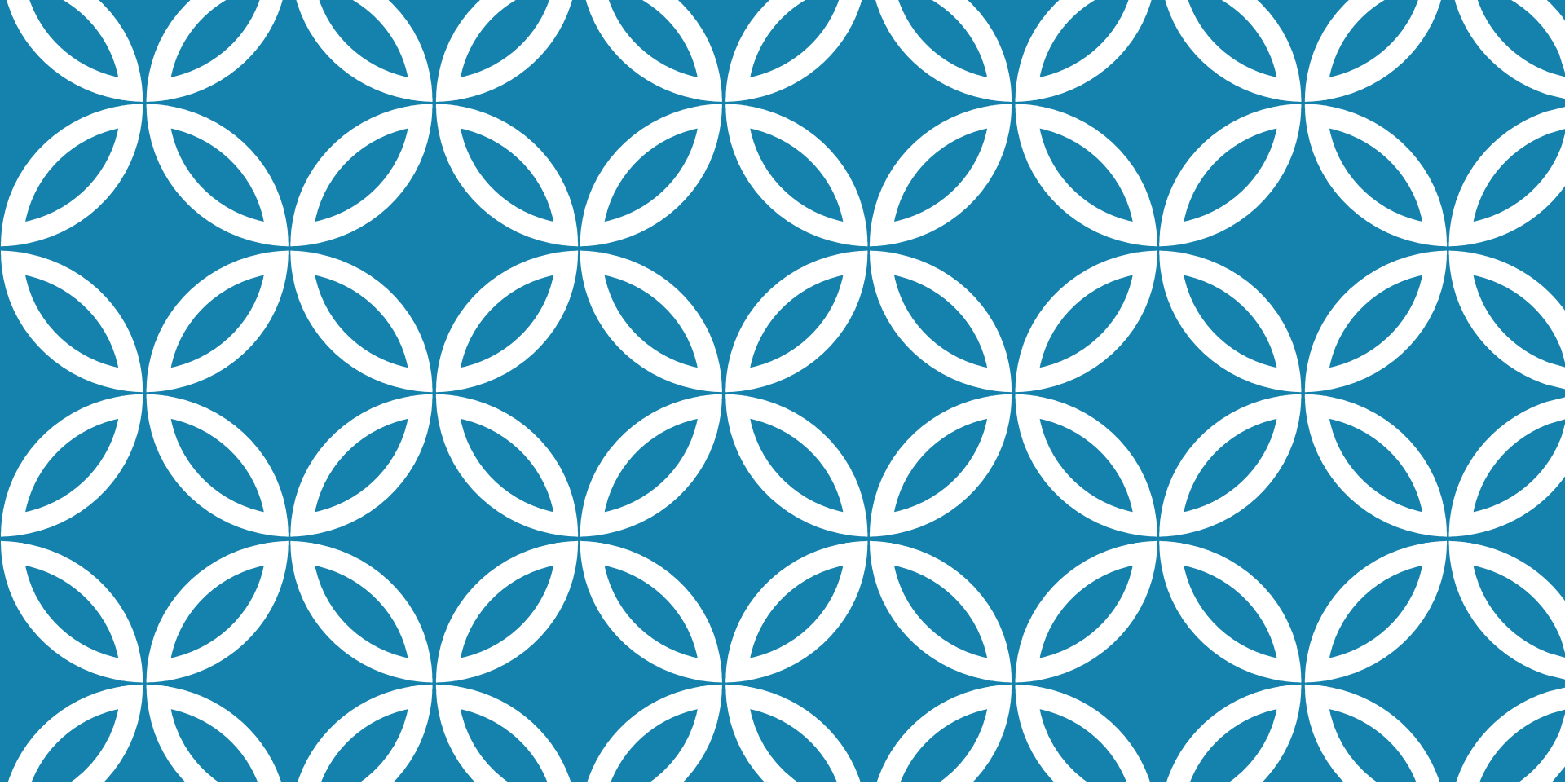
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THE PRICES OF OTHER GOODS

It is possible for some producers to switch production from one good to another.

A rise in the price of carrots may encourage a farmer to produce more carrots at the expense of another crop such as parsnips.





ECONOMICS IN PRACTICE: THE SUPPLY OF RICE (PAGE 18, TEXT BOOK)

HOMEWORK