

1 **Understanding Supply**

- What is the law of supply?
- What are supply schedules and supply curves?
- What is elasticity of supply?
- What factors affect elasticity of supply?

2 **The Law of Supply**

- According to the law of supply, suppliers will offer more of a good at a higher price.

3 **How Does the Law of Supply Work?**

- Economists use the term quantity supplied to describe how much of a good is offered for sale at a specific price.
- The promise of increased revenues when prices are high encourages firms to produce more.
- Rising prices draw new firms into a market and add to the quantity supplied of a good.

4 **Supply Schedules**

- A market supply schedule is a chart that lists how much of a good all suppliers will offer at different prices.

5 **Supply Curves**

- A market supply curve is a graph of the quantity supplied of a good by all suppliers at different prices.

6 **Elasticity of Supply**

- 1 • If supply is not very responsive to changes in price, it is considered inelastic.
- 2 • An elastic supply is very sensitive to changes in price.

7 **What Affects Elasticity of Supply?**

- 1 Time
- 2 • In the long run, firms are more flexible, so supply can become more elastic.

8 **Section 1 Assessment**

1. What is the law of supply?
 - (a) the lower the price, the larger the quantity supplied
 - (b) the higher the price, the larger the quantity supplied
 - (c) the higher the price, the smaller the quantity supplied
 - (d) the lower the price, the more manufacturers will produce the good
2. What happens when the price of a good with an elastic supply goes down?
 - (a) existing producers will expand and some new producers will enter the market
 - (b) some producers will produce less and others will drop out of the market
 - (c) existing firms will continue their usual output but will earn less
 - (d) new firms will enter the market as older ones drop out

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10 **Costs of Production**

- How do firms decide how much labor to hire?

- What are production costs?
- How do firms decide how much to produce?

11 **A Firm's Labor Decisions**

- Business owners have to consider how the number of workers they hire will affect their total production.
- The marginal product of labor is the change in output from hiring one additional unit of labor, or worker.

12 **Marginal Returns**

13 **Production Costs**

- A fixed cost is a cost that does not change, regardless of how much of a good is produced. Examples: rent and salaries
- Variable costs are costs that rise or fall depending on how much is produced. Examples: costs of raw materials, some labor costs.
- The total cost equals fixed costs plus variable costs.
- The marginal cost is the cost of producing one more unit of a good.

14 **Setting Output**

- Marginal revenue is the additional income from selling one more unit of a good. It is usually equal to price.
- To determine the best level of output, firms determine the output level at which marginal revenue is equal to marginal cost.

15 **Section 2 Assessment**

1. What are diminishing marginal returns of labor?
 - (a) some workers increase output but others have the opposite effect
 - (b) additional workers increase total output but at a decreasing rate
 - (c) only a few workers will have to wait their turn to be productive
 - (d) additional workers will be more productive
2. How does a firm set its total output to maximize profit?
 - (a) set production so that total revenue plus costs is greatest
 - (b) set production at the point where marginal revenue is smallest
 - (c) determine the largest gap between total revenue and total cost
 - (d) determine where marginal revenue and profit are the same

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17 **Changes in Supply**

- How do input costs affect supply?
- How can the government affect the supply of a good?
- What other factors can influence supply?

18 **Input Costs and Supply**

- Any change in the cost of an input such as the raw materials, machinery, or labor used to produce a good, will affect supply.
- As input costs increase, the firm's marginal costs also increase, decreasing profitability

and supply.

- Input costs can also decrease. New technology can greatly decrease costs and increase supply.

19 **Government Influences on Supply**

- By raising or lowering the cost of producing goods, the government can encourage or discourage an entrepreneur or industry.

20 **Other Factors Influencing Supply**

- The Global Economy
 - The supply of imported goods and services has an impact on the supply of the same goods and services here.
 - Government import restrictions will cause a decrease in the supply of restricted goods.
- Future Expectations of Prices
 - Expectations of higher prices will reduce supply now and increase supply later. Expectations of lower prices will have the opposite effect.
- Number of Suppliers
 - If more firms enter a market, the market supply of the good will rise. If firms leave the market, supply will decrease.

21 **Section 3 Assessment**

1. What affect does a rise in the cost of raw materials have on the cost of a good?
 - (a) A rise in the cost of raw materials lowers the overall cost of production.
 - (b) The good becomes cheaper to produce.
 - (c) The good becomes more expensive to produce.
 - (d) This does not have any affect on the eventual price of a good.
2. When government actions cause the supply of a good to increase, what happens to the supply curve for that good?
 - (a) It shifts to the left.
 - (b) It shifts to the right.
 - (c) It reverses direction.
 - (d) The supply curve is unaffected.

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