Supply

AP Microeconomics | Unit 2 | the law of supply, shifts versus movements, the six determinants

Running example. Strawberry farmers and the crates they bring to market.

1. The law of supply

Law of supply

Holding everything else constant: price up ⇒ quantity supplied up; price down ⇒ quantity supplied down. The supply curve slopes upward.

Price	$1	$2	$3	$4	$5
Quantity supplied (crates)	10	20	30	40	50

Why it slopes up. A higher price makes selling more profitable, and each extra unit costs more to produce than the last (rising marginal cost), so it takes a higher price to make it worth producing.

2. Movement along the curve vs a shift

The good's **own price** changes	movement *along* the curve	change in **quantity supplied**
Anything else changes	the whole curve *shifts*	change in **supply**

Price $2 → $4: move up the same curve from 20 to 40 crates. A new harvesting machine: the curve shifts right (35 crates at $2 instead of 20).

3. The six determinants of supply (ROTTEN)

R	Resource (input) prices	wages, fertilizer, rent
O	prices of Other goods the seller could make	blueberries pay better: fewer strawberries
T	Taxes and subsidies	a tax is a cost; a subsidy is a payment to sellers
T	Technology	a harvesting machine
E	Expectations	sellers expect a higher price next month
N	Number of sellers	new farms enter the market

One question covers them all: did it become cheaper or more expensive, easier or harder, to produce and sell this good?

4. Left is less: reading the shift

Pickers' wages rise: at every price farmers bring fewer crates (25 at $4 instead of 40). **Supply decreases, and the curve shifts left.**

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Read a supply shift sideways

The new curve also sits *higher* on the graph, which is the trap: for supply, "up" means less. **Left is a decrease, right is an increase.**

Supply decreases (left)	input prices rise, a tax on sellers, sellers leave, another good pays better
Supply increases (right)	input prices fall, a subsidy, better technology, more sellers

5. What a supply shift does to the market

With demand $P = 6 - \frac{Q}{20}$ and supply $P = \frac{Q}{10}$ the market clears at 40 crates and \$4. Pickers cost more, supply shifts left to $P = \frac{Q}{10} + 1.5$: at \$4 there is a shortage, the price rises until 30 crates sell at \$4.50.

Supply shifts

A supply shift moves price and quantity in **opposite** directions: supply left ⇒ price up, quantity down; supply right ⇒ price down, quantity up.

- The same supply shift changes **price** more and quantity less when demand is **inelastic**; quantity more and price less when demand is elastic.
- A higher **fixed** cost (property tax, rent) does not change the cost of each extra unit: supply does not shift.
- A crop that becomes more profitable to grow on the same land (a substitute in production) shifts *this* crop's supply left.
- A shift in one market spills into the next: a drought raises the price of beer, buyers switch to wine, so demand for wine rises and its price and quantity rise.

Where students lose points

1. Calling an upward shift an "increase": a decrease in supply shifts left.
2. Writing "supply increases" when the price rose: that is quantity supplied.
3. Shifting supply for a change in consumer income or tastes (those shift demand).
4. Forgetting that a tax on sellers is a cost and a subsidy is the reverse.
5. Mixing up "other goods": for supply it is what the seller could make instead.

Now practise it

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