
Chapter 5: Supply
Section 1
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ECONOMICS
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Objectives

ECONOMICS

1. **Explain** the law of supply.
2. **Interpret** a supply schedule and a supply graph.
3. **Examine** the relationship between elasticity of supply and time.

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Key Terms

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- **supply**: the amount of goods available
- **law of supply**: producers offer more of a good as its price increases and less as its price falls
- **quantity supplied**: the amount that a supplier is willing and able to supply at a specific price
- **supply schedule**: a chart that lists how much of a good a supplier will offer at various prices
- **variable**: a factor that can change

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Key Terms, cont.

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- **market supply schedule**: a chart that lists how much of a good all suppliers will offer at various prices
- **supply curve**: a graph of the quantity supplied of a good at various prices
- **market supply curve**: a graph of the quantity supplied of a good by all suppliers at various prices
- **elasticity of supply**: a measure of the way quantity supplied reacts to a change in price

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Introduction

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- How does the law of supply affect the quantity supplied?
  - As prices rise, producers will offer more of a good and new suppliers will enter the market in the hopes of making a profit.
  - The law of supply states that as prices rise, so will the quantity supplied.

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The Law of Supply

- Supply is the amount of goods available.
  - As the price of a good increases, producers will offer more of it and as the price decreases, they will offer less.
  - The law of supply includes two movements:
    - Individual firms changing their level of production
    - Firms entering or exiting the market

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What is the Law of Supply?

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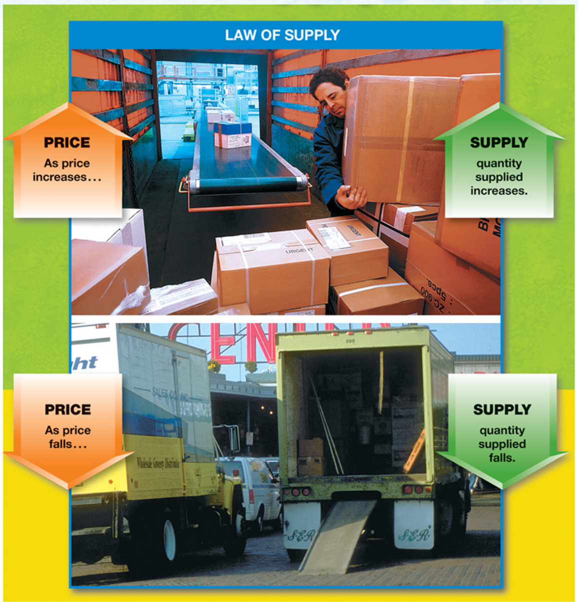

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Higher Production

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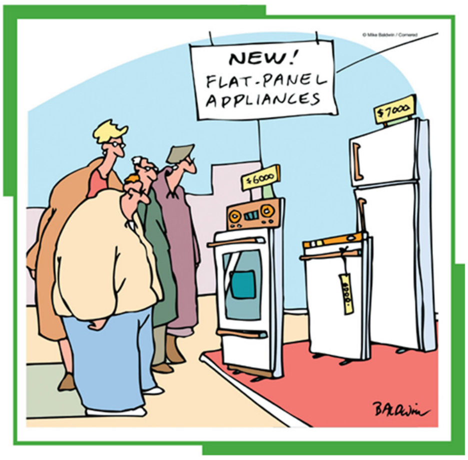
- If a firm is earning a profit from the sale of a good or service, then an increase in the price will, in turn, increase the firm's profits.
- In general, the search for profit drives the choices made by the producer.



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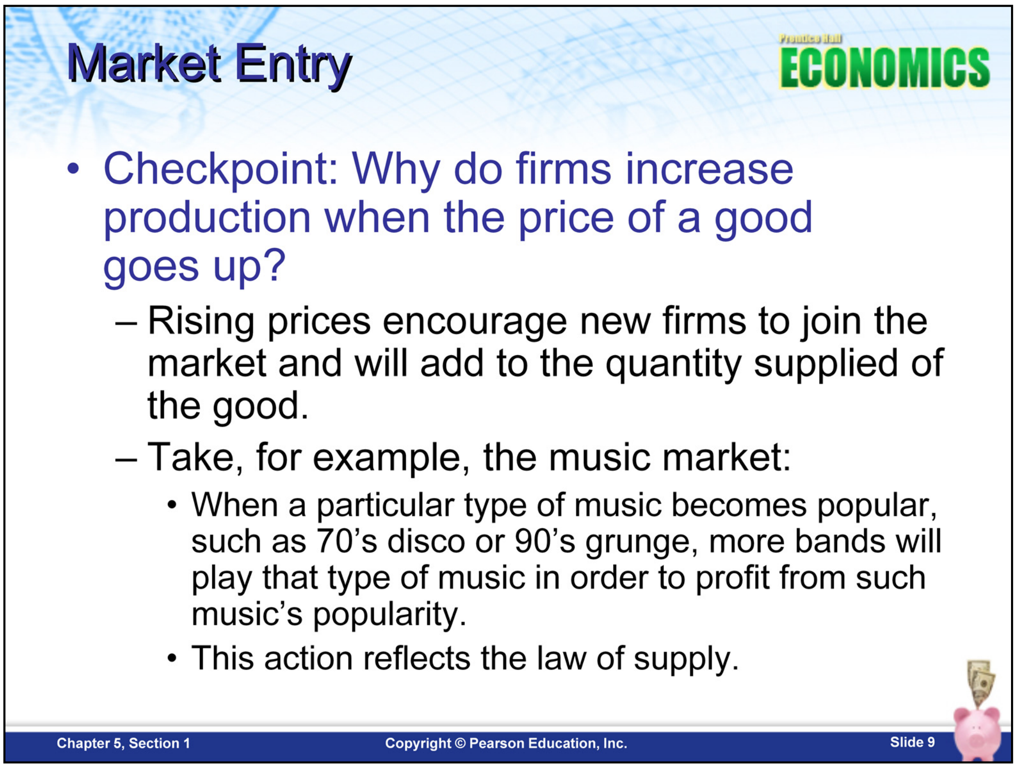

Checkpoint Answer: Because the law of supply states that as prices rise, so does the amount of quantity supplied

The Supply Schedule

- Supply of a good can be measured using a supply schedule.
  - A supply schedule shows the relationship between price and quantity supplied for a particular good.

- An individual supply schedule shows how much of a good a single supplier will be able to offer at various prices. A market supply schedule shows how much of a good *all* firms in a particular market can offer at various prices.

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Supply Schedule

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- The supply schedule lists how many slices of pizza one pizzeria will offer at different prices. The market supply schedule represents all suppliers in a market.
  - What does the individual supply schedule tell you about the pizzeria owner's decisions?
  - How does the market supply schedule compare to the individual supply schedule?

Individual Supply Schedule

Price Per Slice of Pizza	Slices Supplied Per Day
$1.00	100
$2.00	150
$3.00	200
$4.00	250
$5.00	300
$6.00	350

Market Supply Schedule

Price Per Slice of Pizza	Slices Supplied Per Day
$1.00	1,000
$2.00	1,500
$3.00	2,000
$4.00	2,500
$5.00	3,000
$6.00	3,500

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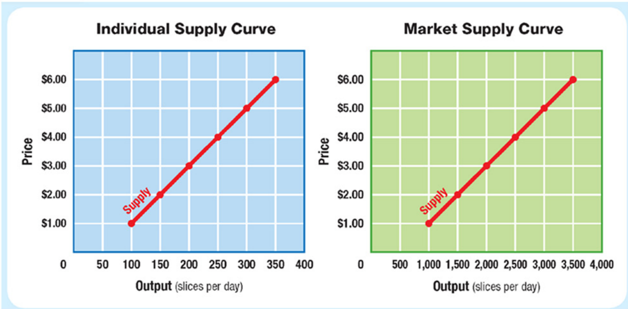
Answers: 1. That the higher the price of pizza, the more the pizzeria owner will supply. 2. It follows a similar patter as the individual supply schedule with a larger quantity of slices supplied each day, which reflects the entire market.

The Supply Graph

- A supply schedule can be represented graphically by plotting points on a supply curve.
  - A supply curve always rises from left to right because higher prices leads to higher output.
  - Checkpoint: What are the two variables represented in a supply schedule or supply curve?



Chapter 5, Section 1

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Slide 12

Checkpoint Answer: price and quantity supplied

Elasticity of Supply

- Elasticity of supply, based on the same concept of elasticity of demand, measures how firms will respond to changes in the price of a good.
  - Elastic
    - When elasticity is greater than one, supply is very sensitive to price changes
  - Inelastic
    - When elasticity is less than one, supply is not very responsive to price changes.

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Elasticity in the Short Run

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- In the short run, it is difficult for a firm to change its output level, so supply is inelastic.
- Many agricultural businesses, such as harvesting cranberries, have a hard time adjusting to price changes in the short term.

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Elasticity in the Long Run

- In the long run, supply can become more elastic.
- Just like demand, supply becomes more elastic if the supplier has a longer time to respond to a price change.

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Review

- Now that you have learned how the law of supply affects the quantity supplied, go back and answer the Chapter Essential Question.
  - How do suppliers decide what goods and services to offer?

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