

**Chapter 5: Supply  
Section 1**

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# Objectives

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.



# Key Terms

- **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



# Key Terms, cont.

- **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



# Introduction

- 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.



# 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



# What is the Law of Supply?

**LAW OF SUPPLY**

**PRICE**  
As price increases...

**SUPPLY**  
quantity supplied increases.

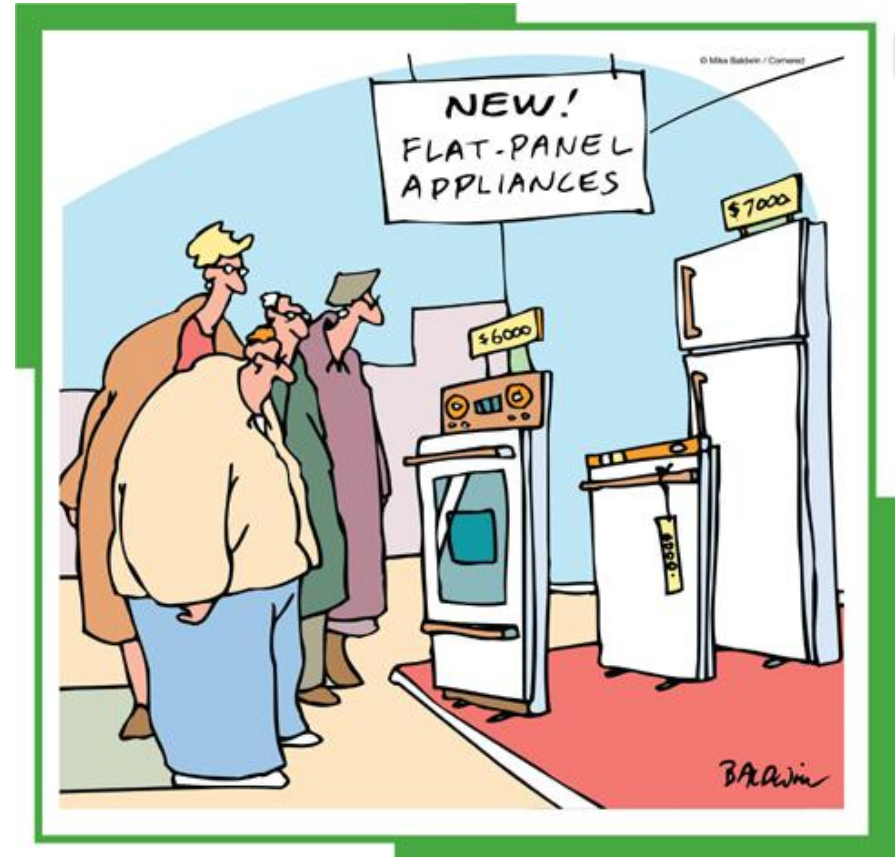
**PRICE**  
As price falls...

**SUPPLY**  
quantity supplied falls.



# Higher Production

- 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.





# Market Entry

- Checkpoint: Why do firms increase production when the price of a good goes up?
  - Rising prices encourage new firms to join the market and will add to the quantity supplied of the good.
  - Take, for example, the music market:
    - When a particular type of music becomes popular, such as 70's disco or 90's grunge, more bands will play that type of music in order to profit from such music's popularity.
    - This action reflects the law of supply.



# 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.



# Supply Schedule

- The supply schedule lists how many slice 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

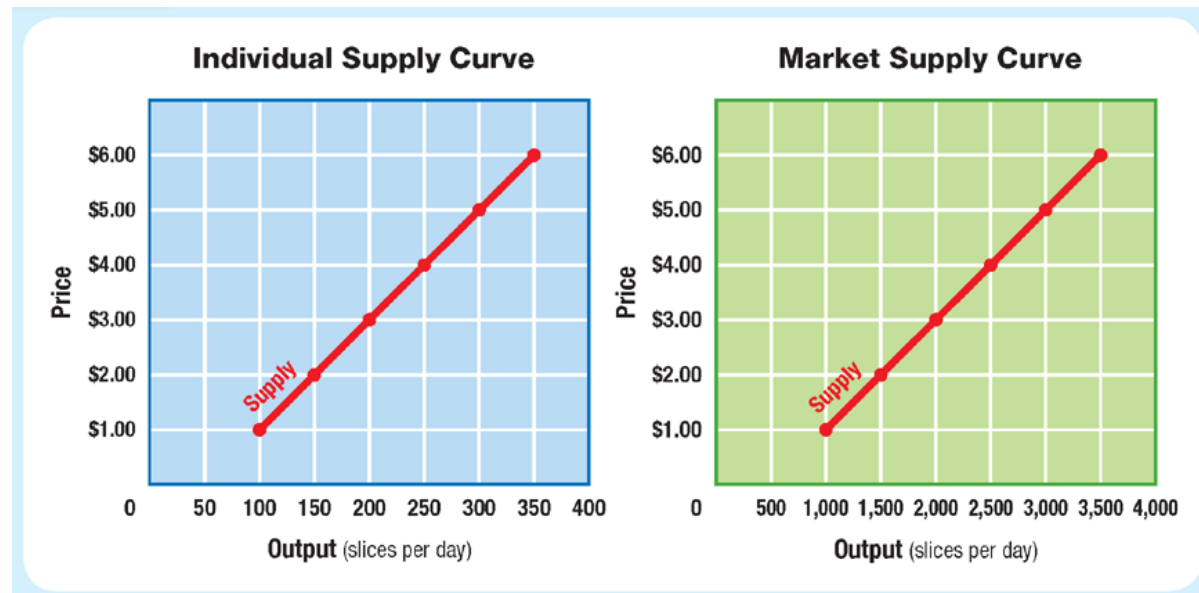
**Market Supply Schedule**

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



# 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?



# 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.



# Elasticity in the Short Run

- 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.



# 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.



# 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?

