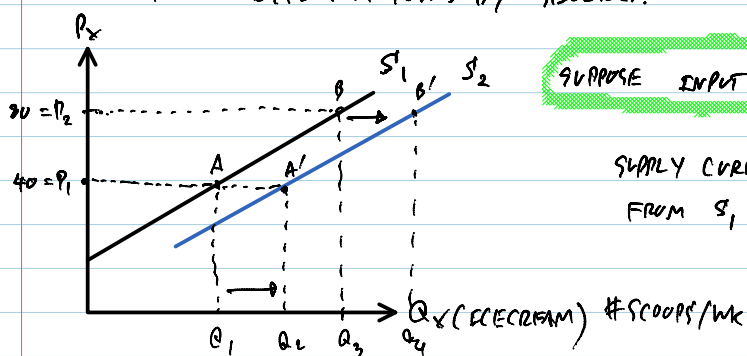
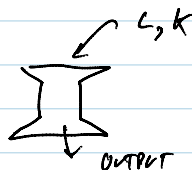


WEEK 4:

SUPPLY SHIFTERS: FACTORS THAT CAUSE SUPPLY CURVE TO SHIFT.

- INPUT PRICES
- TECHNOLOGY
- NUMBER OF SELLERS
- PRICE EXPECTATIONS BY SELLERS.



SUPPOSE INPUT PRICES FALL.

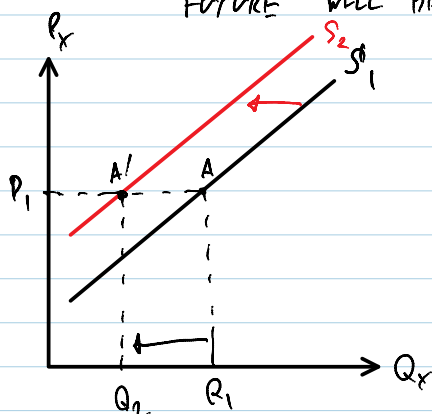
SUPPLY CURVE SHIFTS RIGHT FROM S_1 TO S_2 .

- AT ANY GIVEN PRICE LEVEL, QUANTITY SUPPLIED INCREASES.
(i.e., SELLERS WANT TO PRODUCE MORE)

• WHEN THE SUPPLY CURVE SHIFTS TO THE RIGHT, WE CALL "AN INCREASE IN SUPPLY"

↓ WHICH MEANS THAT "QUANTITY SUPPLIED INCREASE AT ANY POSSIBLE PRICE."

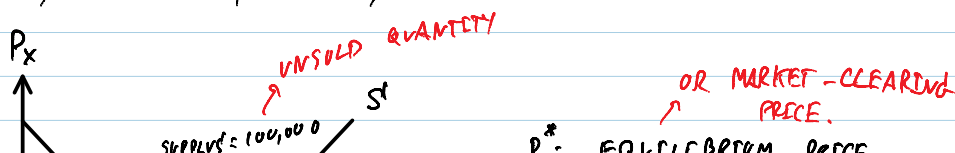
SUPPOSE: SELLERS EXPECT THAT PRICE IN THE FUTURE WILL BE HIGHER...

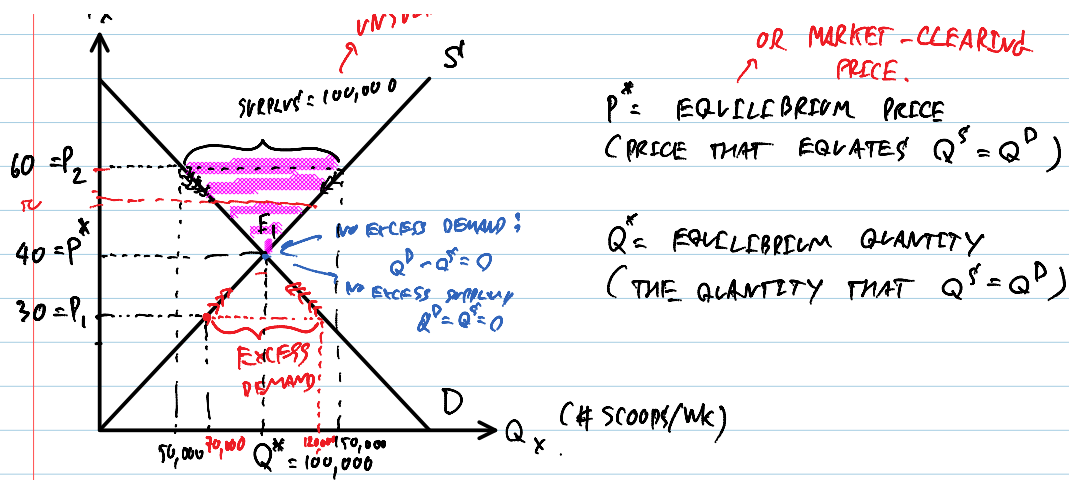


THIS CAUSES THE SUPPLY CURVE SHIFTS TO THE LEFT FROM S_1 TO S_2 .
THAT MEANS "QUANTITY SUPPLIED DECREASES AT ANY GIVEN PRICE"

WE CALL THIS "A DECREASE IN SUPPLY"

NOW, SUPPLY, DEMAND, AND EQUILIBRIUM





CONSIDER AT $P_2 = 60$: $Q^D = 50,000 < Q^S = 150,000$

"SURPLUS" OR "EXCESS SUPPLY"

- PRICE WILL MOVE DOWNWARD AS SOME SELLERS CUT THE PRICE TO GET RID OF "EXCESS SUPPLY"
- THIS PROCESS WILL CONTINUE UNTIL THE EQUILIBRIUM IS RESTORED.

AT $P_1 = 30$, $Q^D > Q^S$, THE RESULT IS

"SHORTAGE"

OR

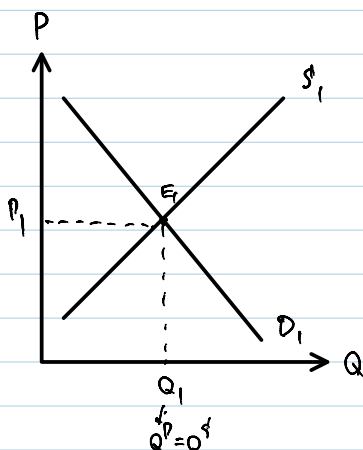
"EXCESS DEMAND"

SOME BUYERS BID THE PRICE UP OR OFFER A HIGHER PRICE OR SELLERS SEE THE SHORTAGE AND RAISE THE PRICE.

THE BIDDING UP PROCESS GOES ON UNTIL EQUILIBRIUM PRICE IS RESTORED.

(7.9.2012)

CHANGES IN A MARKET EQUILIBRIUM



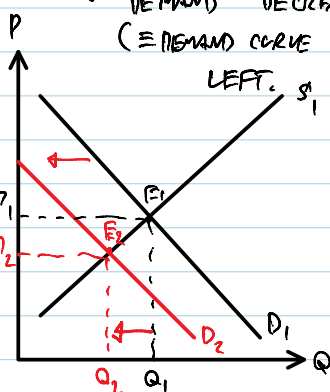
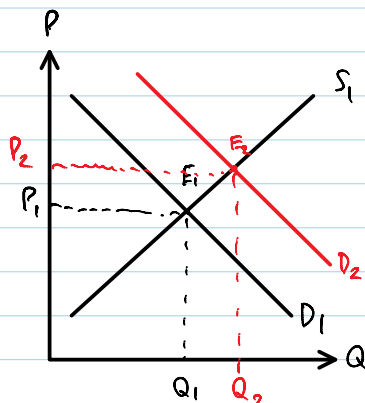
CASE 1 CHANGE IN DEMAND $\leftarrow$ DEMAND INCREASES
($\equiv$ DEMAND CURVE SHIFTS RIGHT)

CASE 1

CHANGE IN DEMAND

DEMAND INCREASES
($\equiv$ DEMAND CURVE SHIFTS RIGHT)

DEMAND DECREASES
($\equiv$ DEMAND CURVE SHIFTS LEFT)



AN INCREASE IN DEMAND

MARKET OUTCOME (EFFECT ON PRICE AND ON QUANTITY)

RESULT: $P \uparrow$ AND $Q \uparrow$

A DECREASE IN DEMAND

MARKET OUTCOME: $P \downarrow$ AND $Q \downarrow$

$\downarrow$
AS EQU. PRICE

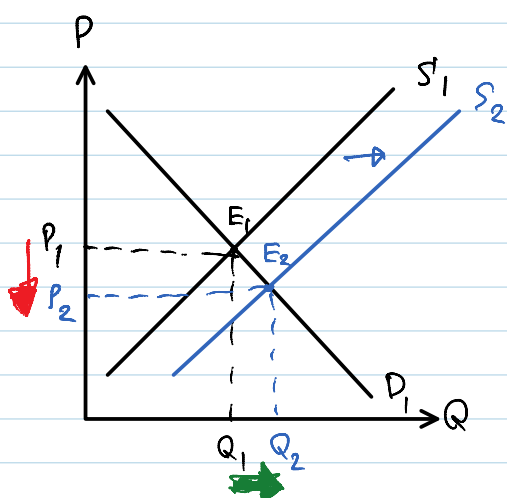
$\downarrow$
AS EQU. QUANTITY

CASE 2

CHANGE IN SUPPLY (CURVE)

INCREASE IN SUPPLY
($\equiv$ SUPPLY CURVE SHIFTS RIGHT)

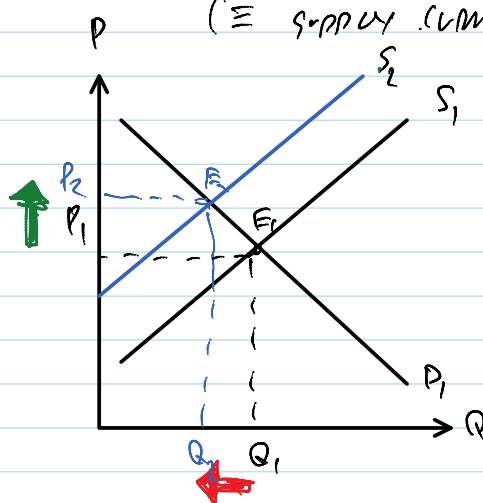
DECREASE IN SUPPLY
($\equiv$ SUPPLY CURVE SHIFTS LEFT)



AN INCREASE IN SUPPLY

EFFECT ON P: $P \downarrow$

EFFECT ON Q: $Q \uparrow$

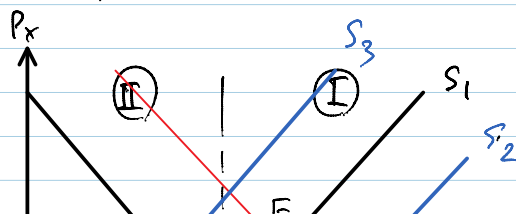


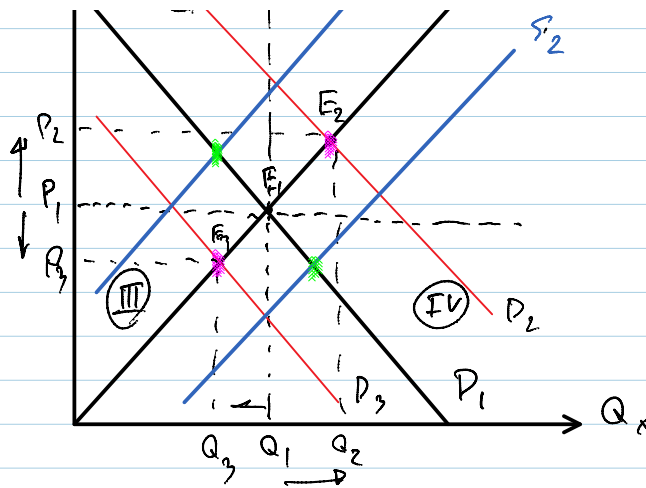
A DECREASE IN SUPPLY

EFFECT ON P: $P \uparrow$

EFFECT ON Q: $Q \downarrow$

OVERALL PICTURE:





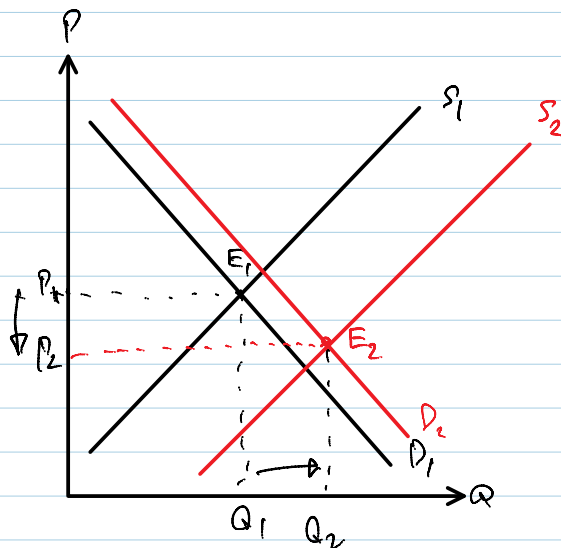
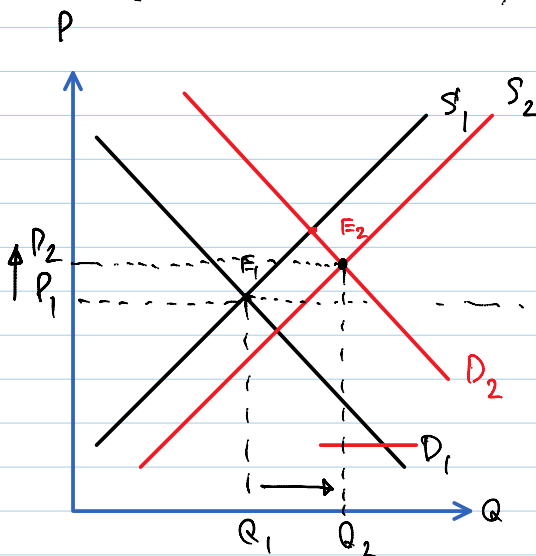
• ANY CHANGE IN DEMAND WILL CAUSE P AND Q TO MOVE IN THE SAME DIRECTION

• ANY CHANGE IN SUPPLY WILL CAUSE P AND Q TO MOVE IN THE OPPOSITE DIRECTION.

CASE 3 "CHANGE IN DEMAND" + "CHANGE IN SUPPLY"
(WHEN THE DEMAND CURVE AND THE SUPPLY CURVE SHIFT AT THE SAME TIME)

WE WOULD HAVE 4 POSSIBLE CASES,

① INCREASE IN DEMAND AND INCREASE IN SUPPLY
(D CURVE SHIFTS RIGHT) = (S CURVE SHIFTS RIGHT)



RESULT? • EFFECT ON P IS "UNCLEAR" OR "INCONCLUSIVE"
C.I.E., P MIGHT GO UP OR GO DOWN

DEPENDENT ON "RELATIVE MAGNITUDE OF
THE SHIFTS"

- EFFECT ON Q IS "CLEAR" OR "CONCLUSIVE",

%Q WILL ALWAYS INCREASE

IN REGARDLESS OF THE RELATIVE
MAGNITUDE OF THE SHIFTS.

CASE 2 DECREASE IN DEMAND & DECREASE IN SUPPLY,

CASE 3 INCREASE IN DEMAND & DECREASE IN SUPPLY,

CASE 4 DECREASE IN DEMAND & INCREASE IN SUPPLY,