

Chapter 5 Supply

Supply is *relationship* between the price and the quantity the seller(s) is (are) *willing* and *able* to sell.

- At a given price, the quantity sold is called the *quantity supplied*.
- Statement: When price decreases, the supply decreases.

Change in Supply and Change in Quantity Supplied

- *Supply increases*: At a given price, the quantity supplied increases.
- *Quantity Supplied increases*: When price decreases the quantity supplied decreases—when the supply is actually unchanged.

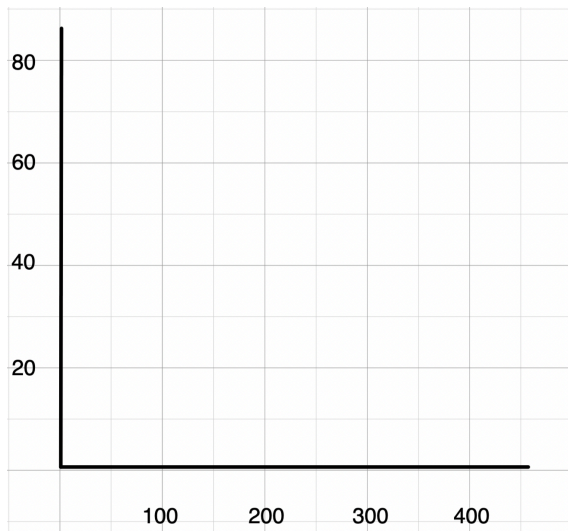
Law of Supply: Given all factors being equal, if the price decreases
the quantity supplied decreases.

- ⇔ Price and quantity supplied have direct relationship
- ⇔ Supply curve has positive slope

Example: A supply curve is given by a function,

$$\text{Supply: } P = 10 + \frac{1}{10} Q_s$$

- Plot of Supply Curve:



Factors that can change the Supply

1. Technology
2. Number of sellers
3. Expectation
4. Price and quality of inputs

Individual and Market Supplies

- Market supply is the summation of individual supplies of all sellers in the market.
- At each price, the quantity supplied of the market is sum of all quantities supplied of all sellers at that price.

Extreme Cases of Supply Curve

- Horizontal Supply

- Vertical Supply

HW How the supply increases in each of these extreme cases?

Example: Suppose that it is legal to sell one's kidney. What is the individual supply of kidney of a person who wants to sell his kidney? Does the market supply has a positive slope?

Question: If individual supplies of sellers are all horizontal at different prices, what will be the market supply?