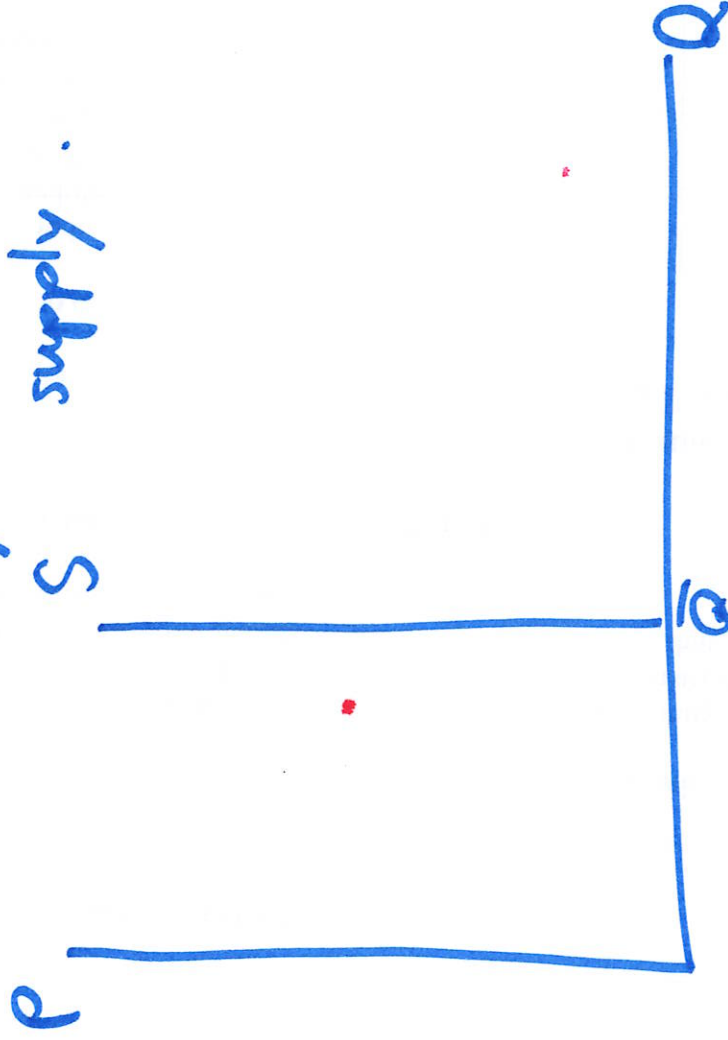


Examples of extreme cases of supply curves

- Vertical supply
↳ perfectly "inelastic"
S supply.



"Scarce" - hard to be produced.
eg. high-valued land, commodities.

- Horizontal supply
↳ perfectly "elastic"
supply



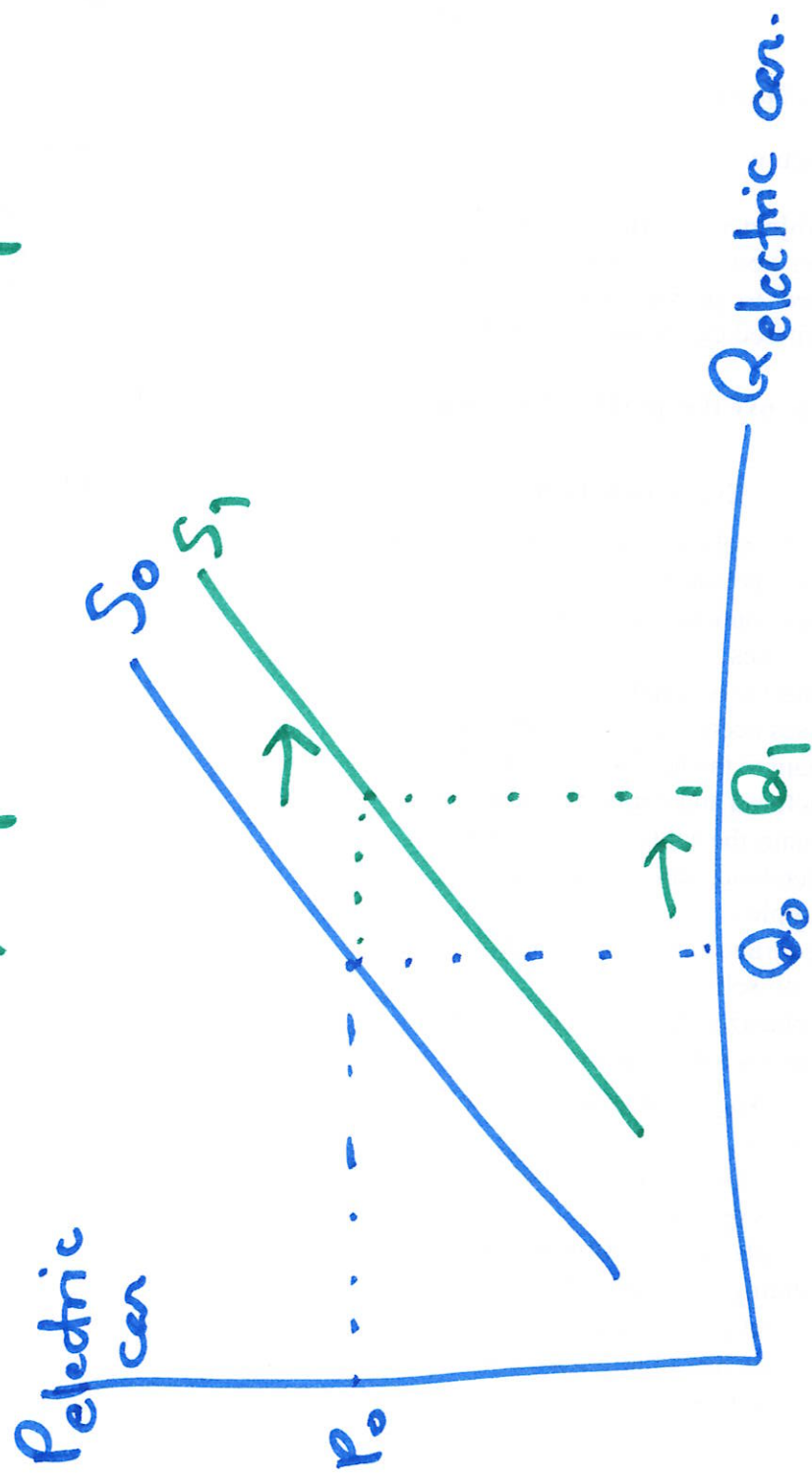
Determinants of Supply

• Price : $P \uparrow \Rightarrow Q_s \uparrow$ (movement along supply curve)

- Input costs
 - Technology
 - #s of sellers
 - expectations
- } "Supply Shifters"

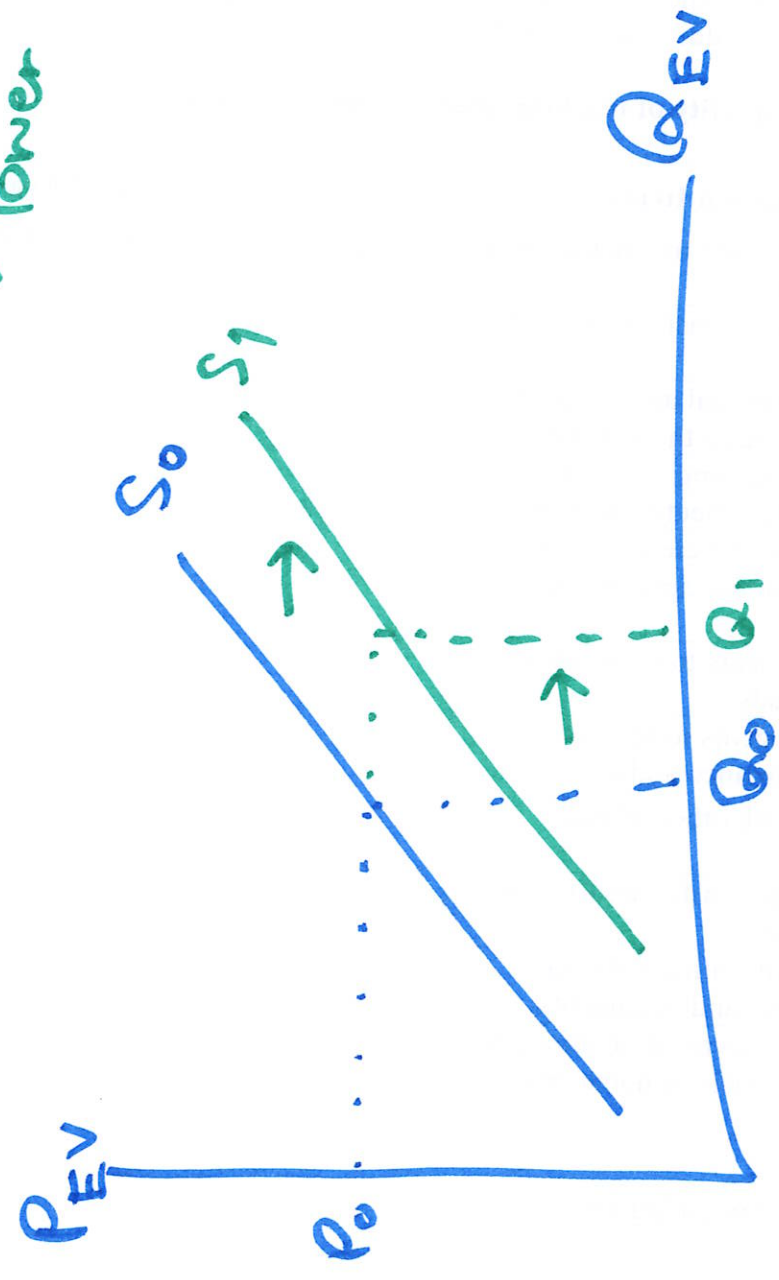
Ex : Electric Car Market.

- Suppose battery for electric car is cheaper.
↳ input cost is cheaper.



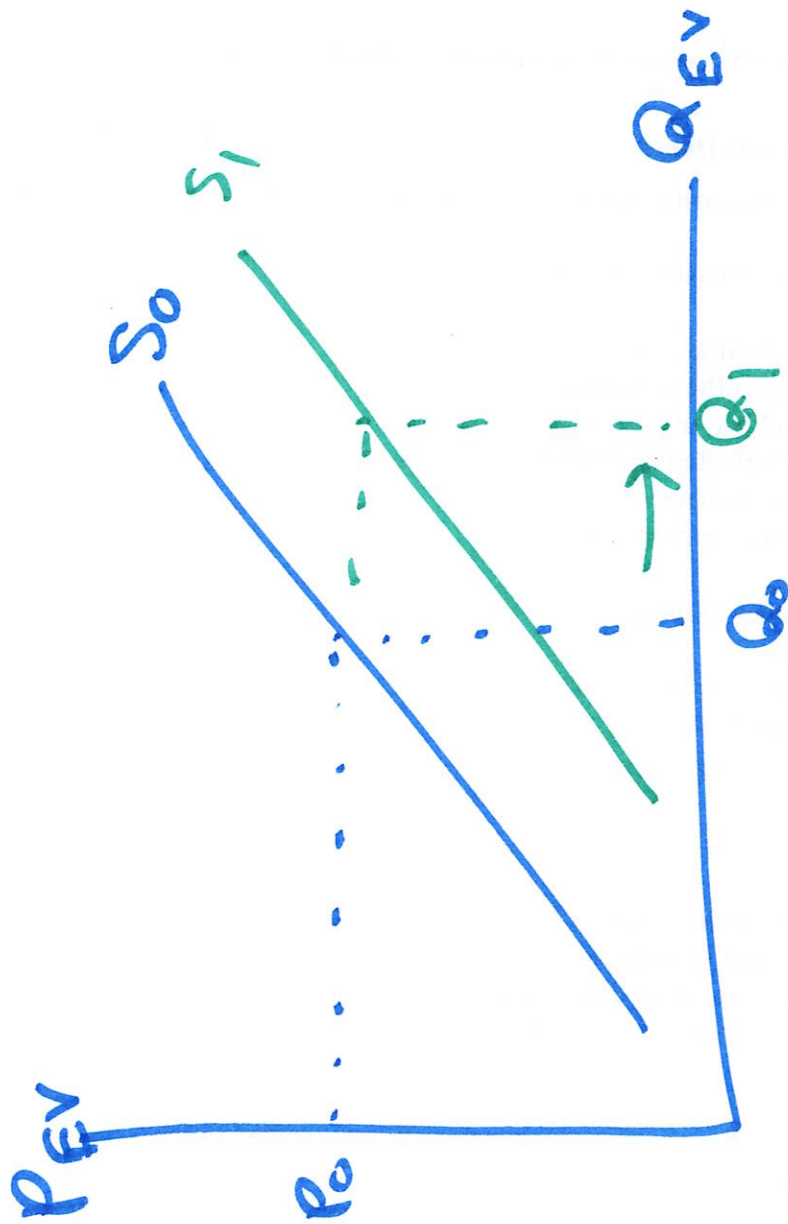
④

Suppose we have new "better" technology for EV.
(Electric vehicles)
↳ lower cost of production.



5

• Suppose there are more sellers in EV market.



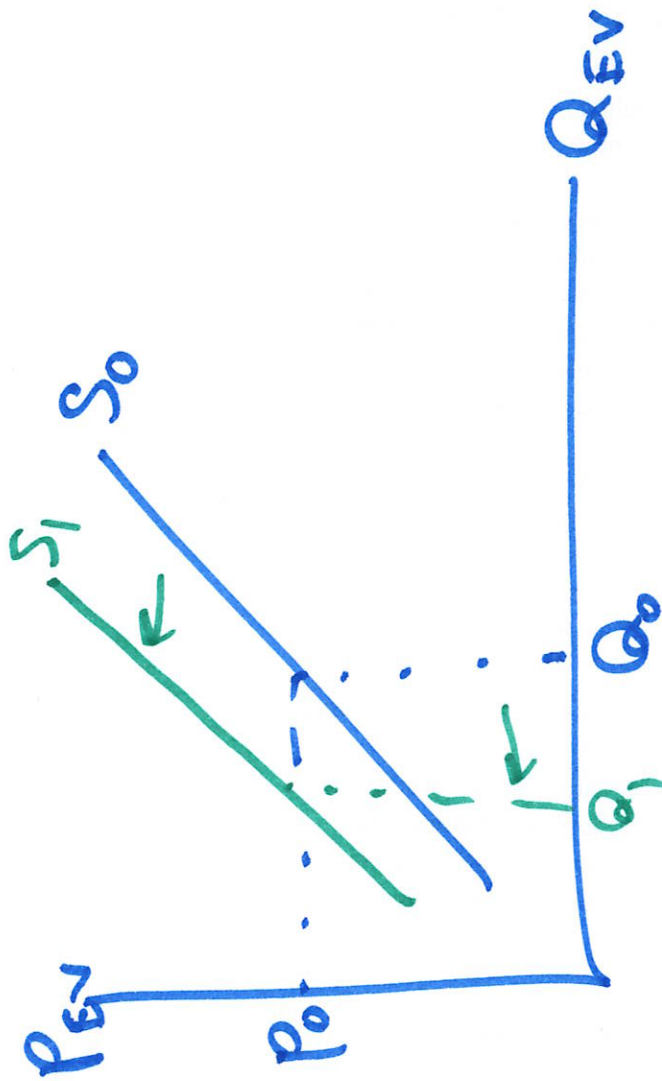
- a. S shifts to left
- b. S shifts to right
- c. Nothing changes.

Q: What happens if the price of "regular" cars decreases?

6

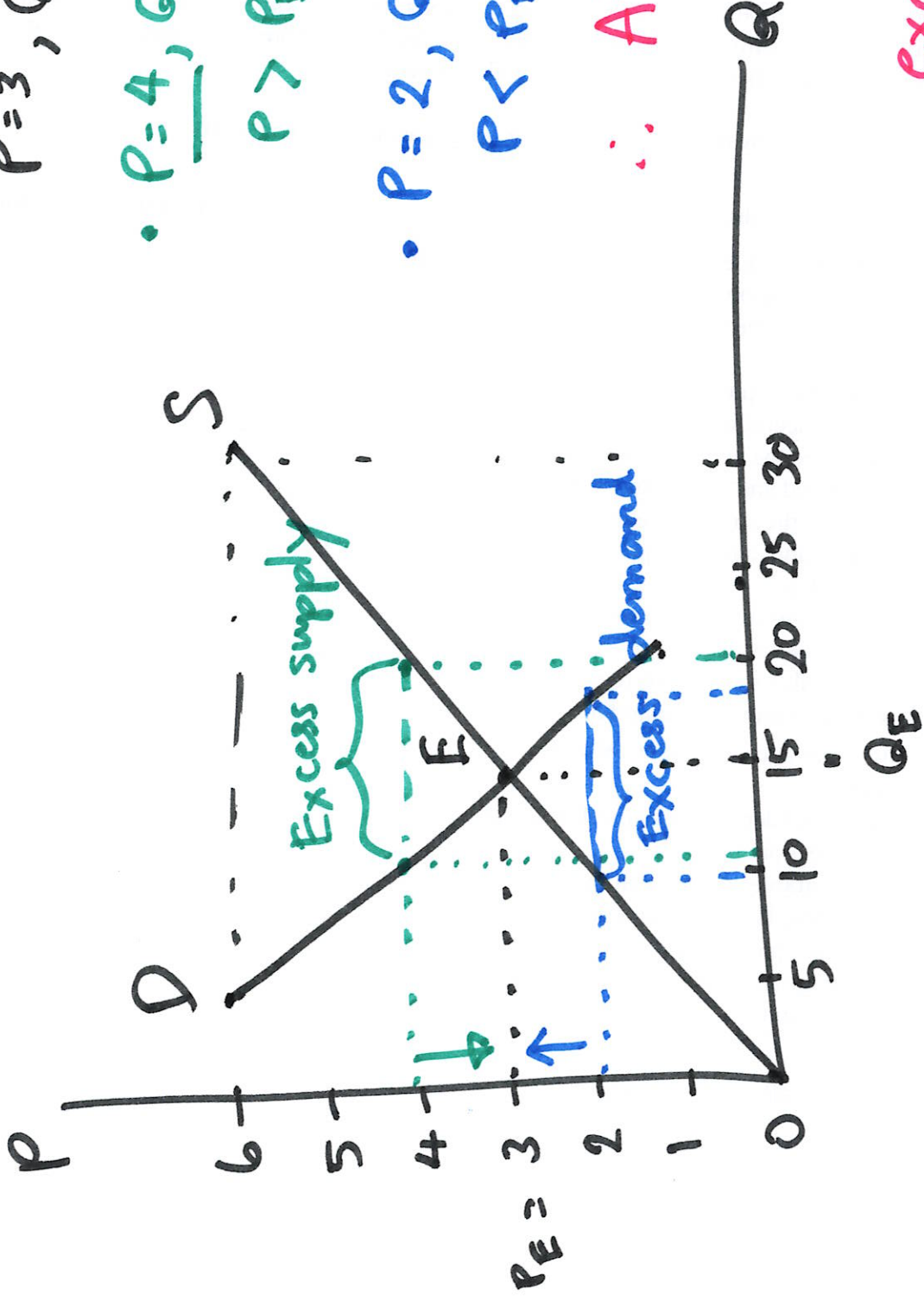
• Suppose the EV sellers expect the govt to lower tax for EVs. in the next 3 month.

What happens to SEVs now?



①

Market Equilibrium



$P = 3, Q^D = 15 = Q^S$

• $P = 4, Q^D = 12, Q^S = 20$
 $P > P_E \Rightarrow Q^S > Q^D$

• $P = 2, Q^D = 18, Q^S = 10$
 $P < P_E \Rightarrow Q^S < Q^D$

\therefore At the equilibrium,
 excess demand = 0, &
 excess supply = 0.

Changes in Market Equilibrium

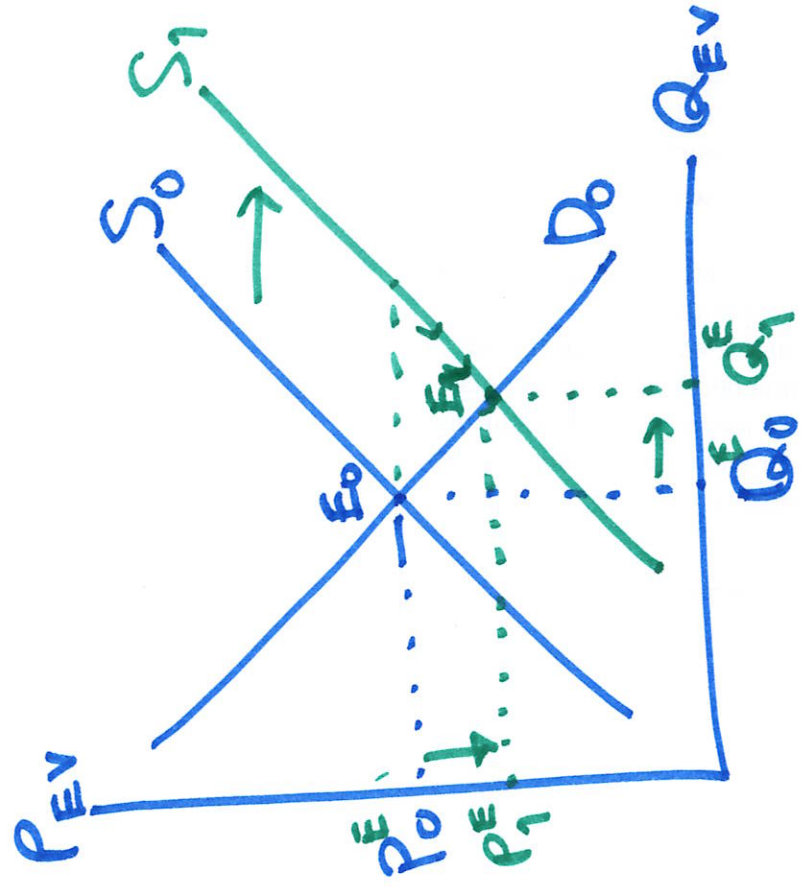
For any change (shock or event),

1. Decide whether the event shifts D curve or S curve or both.
2. Decide in which direction the curve shifts.
3. Use demand-supply diagram to see how the shift changes P_E and Q_E .

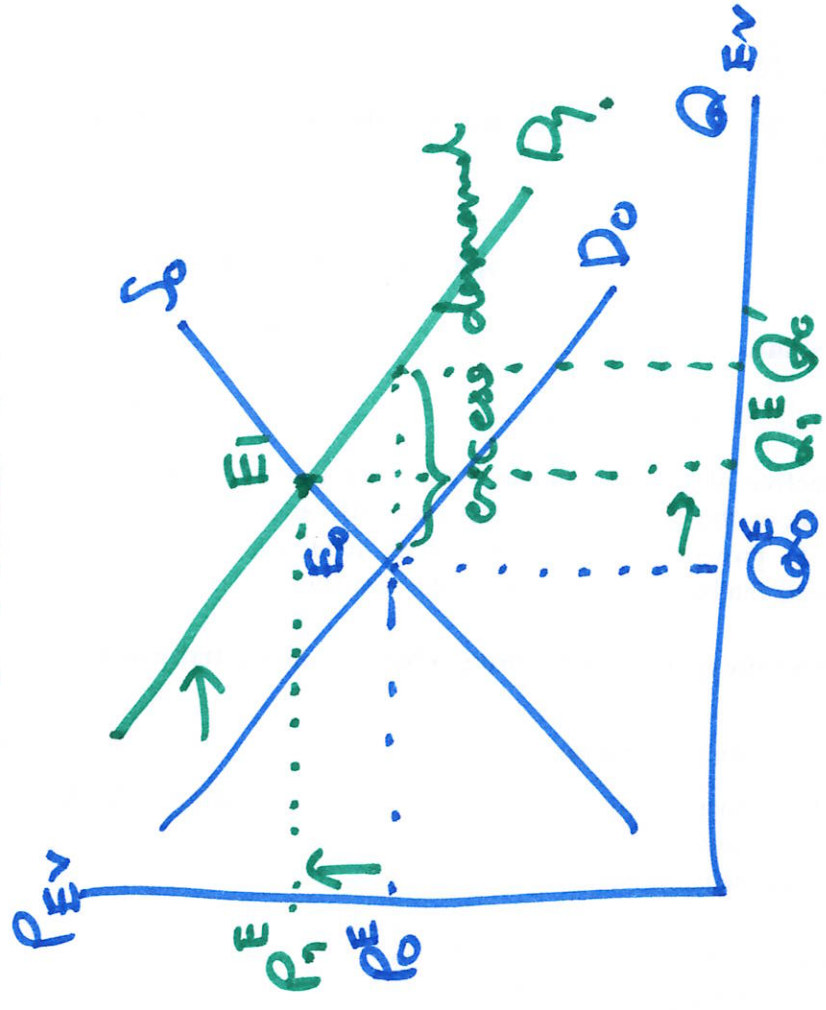
① Consider EV market substitute for EV.

(1) # of EV sellers increases. \rightarrow S. shifts

(2) Price of "regular" cars increases \rightarrow Demand for EV shifts.



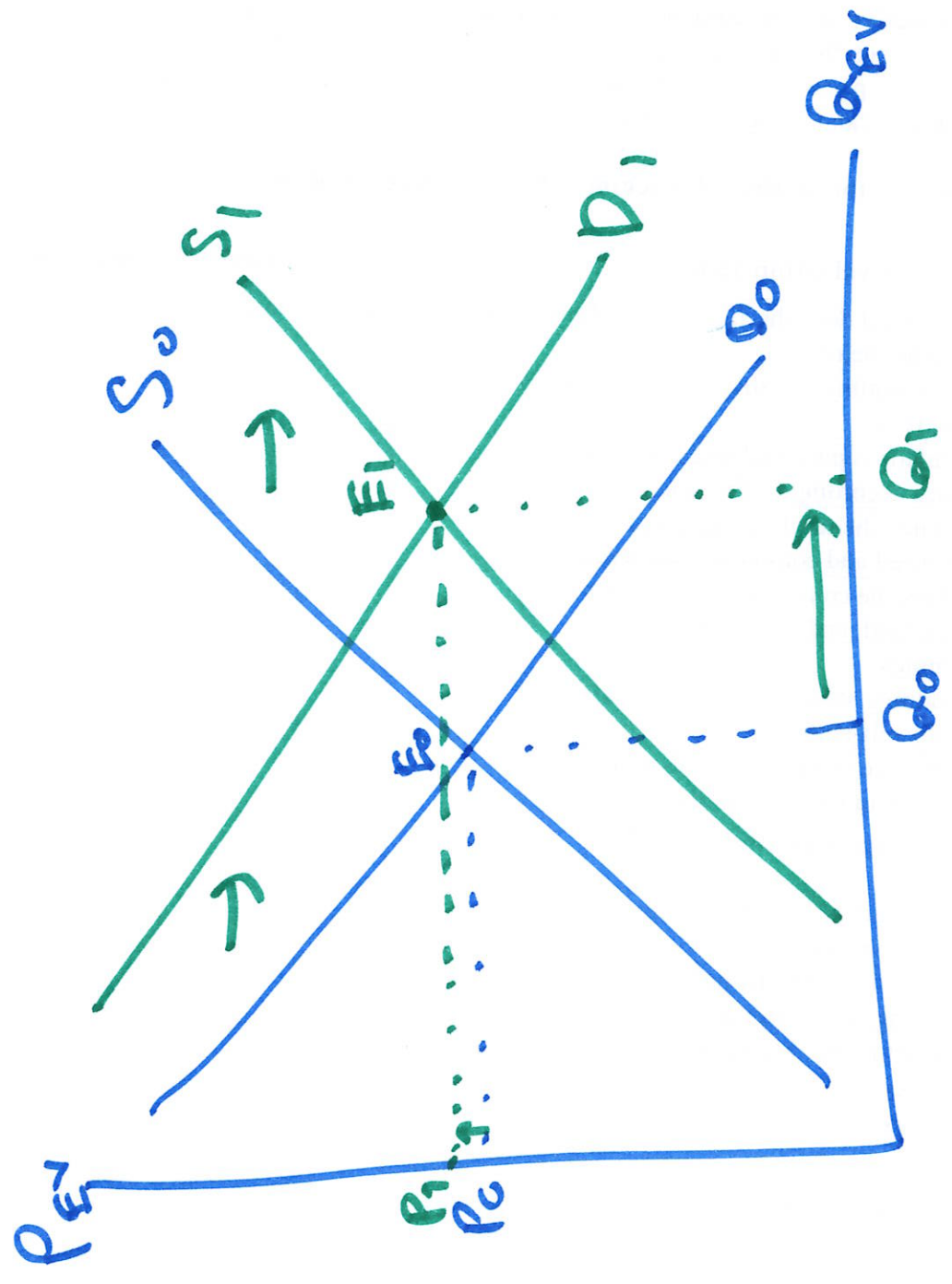
$P_E \downarrow$ & $Q_E \uparrow$



$P_E \uparrow$ & $Q_E \uparrow$

Both demand and supply curves shift right. - Case 1

Demand increases
more.
 $\Rightarrow P_E \uparrow$

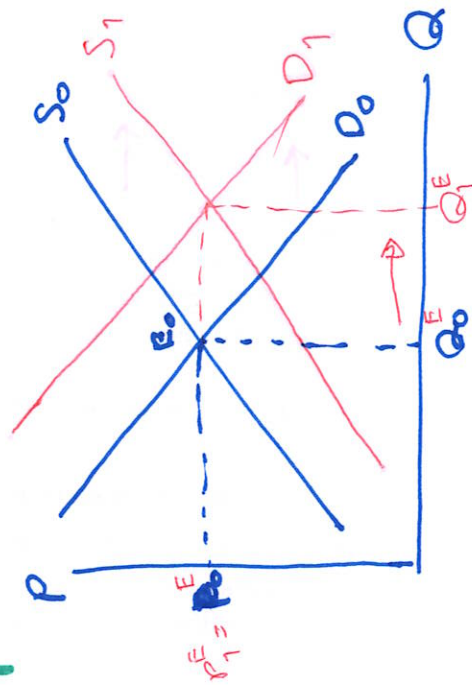
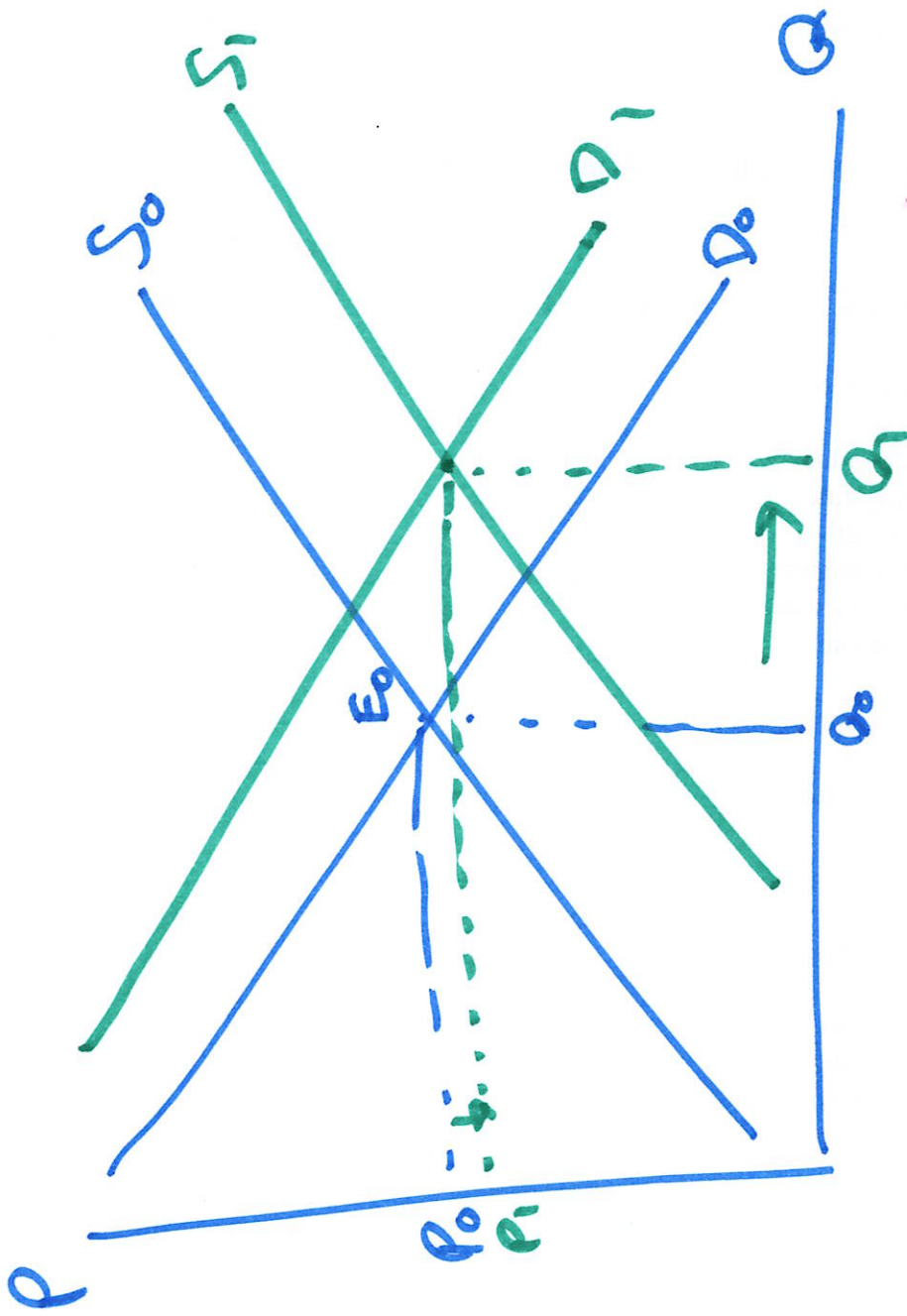


Both demand and supply curves shift right. - Case 2

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Supply increases more.

$\Rightarrow P_E \downarrow$



Note: If supply and demand curves shift by the same magnitude, there's NO change to P_E .