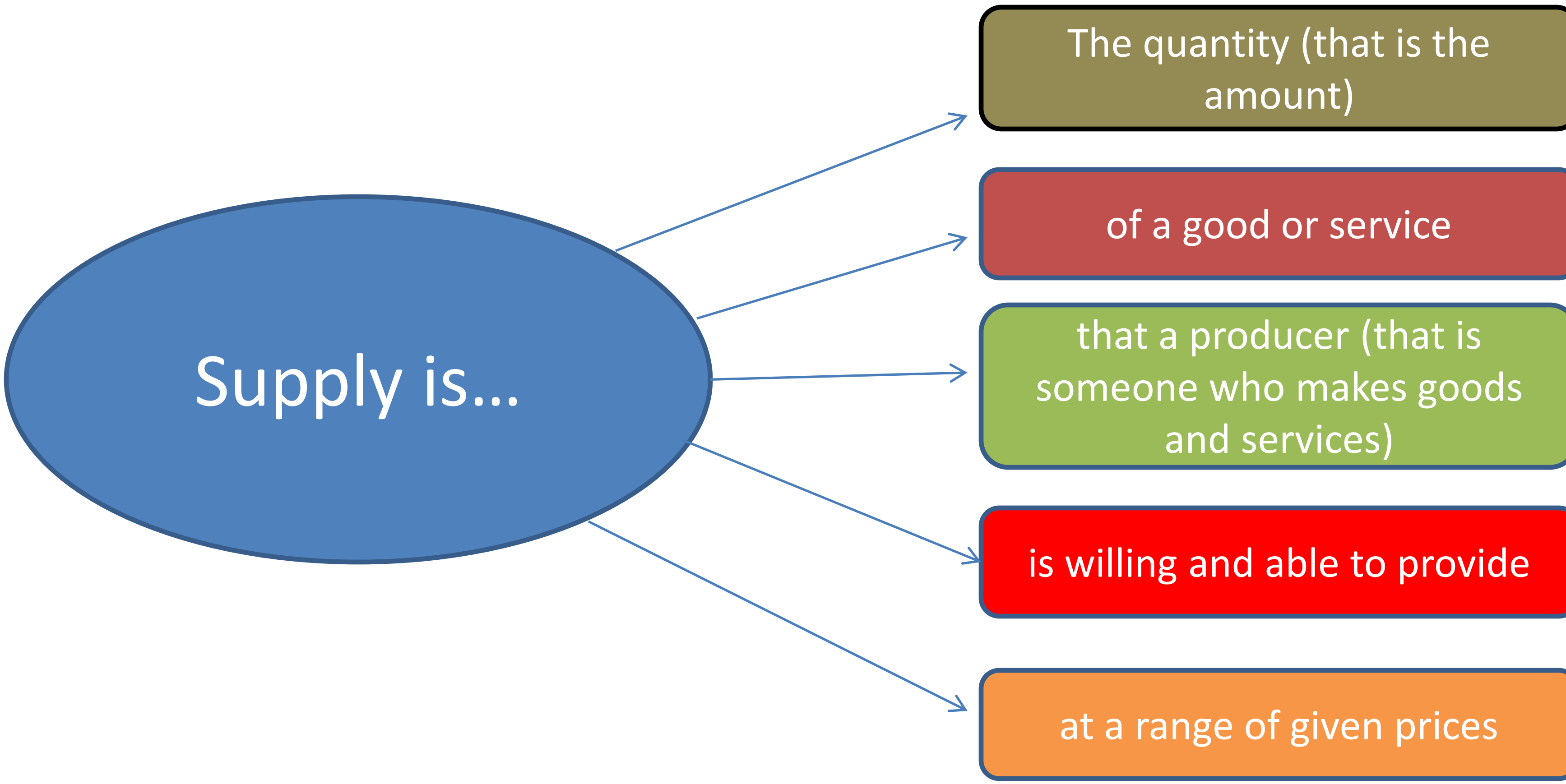
Achievement Standard 90197

Describe the concept of Supply

What is supply?



A Supply Schedule

This schedule tells us that if the price of a moro bar is $3, Jeff would supply 20 per week

if the price of a moro bar is $2.50, Jeff would supply 15 per week

if the price of a moro bar is $2.00, Jeff would supply 10 per week etc.

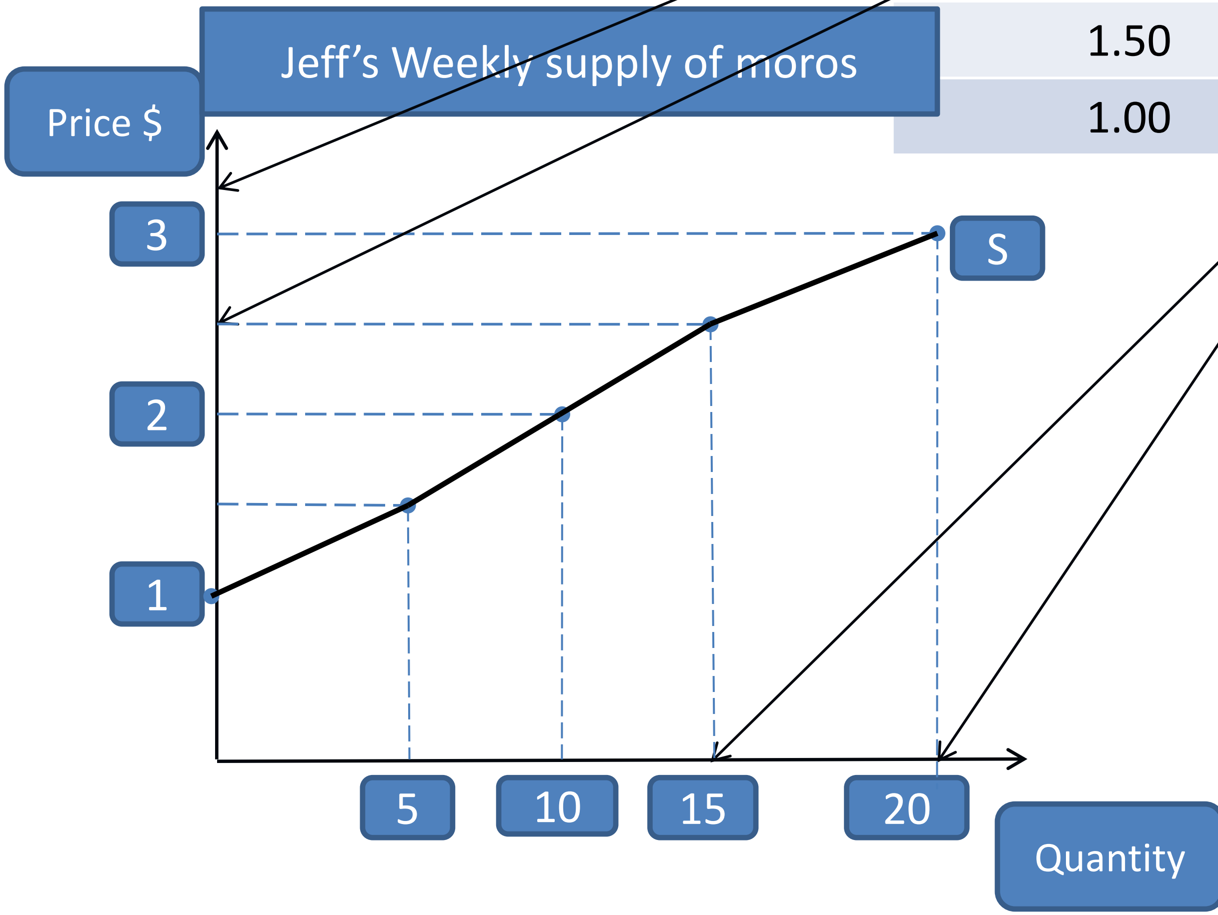
Jeff's Weekly Supply Schedule for Moro Bars

Price $	Quantity
3.00	20
2.50	15
2.00	10
1.50	5
1.00	0

The graph is titled, the axes are even scaled and labelled.

Jeff's Weekly Supply Schedule for Moro Bars

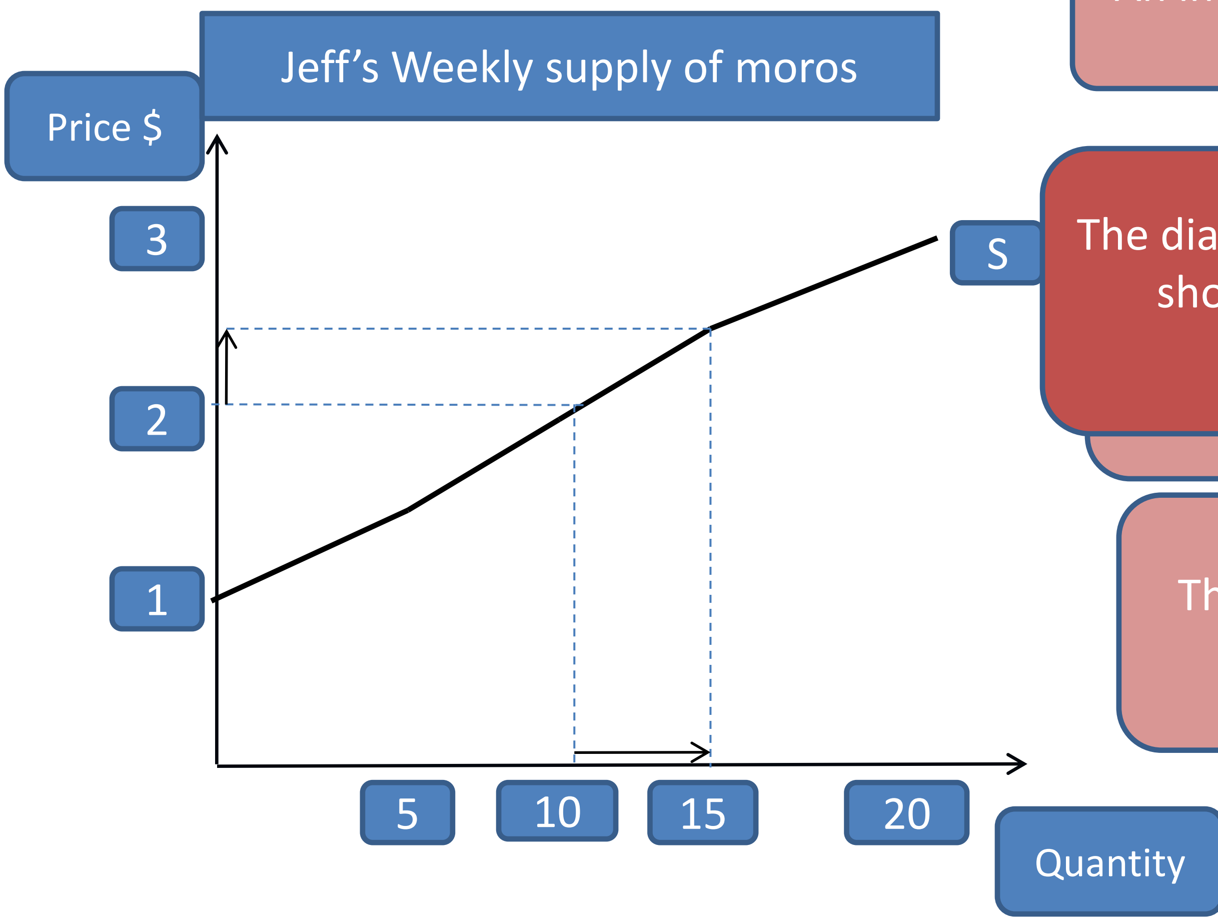
Price $	Quantity
3.00	20
2.50	15
2.00	10
1.50	5
1.00	0



Plot the points that are given in the schedule.

Join each point with a line. Label the line S

Change in Quantity Supplied



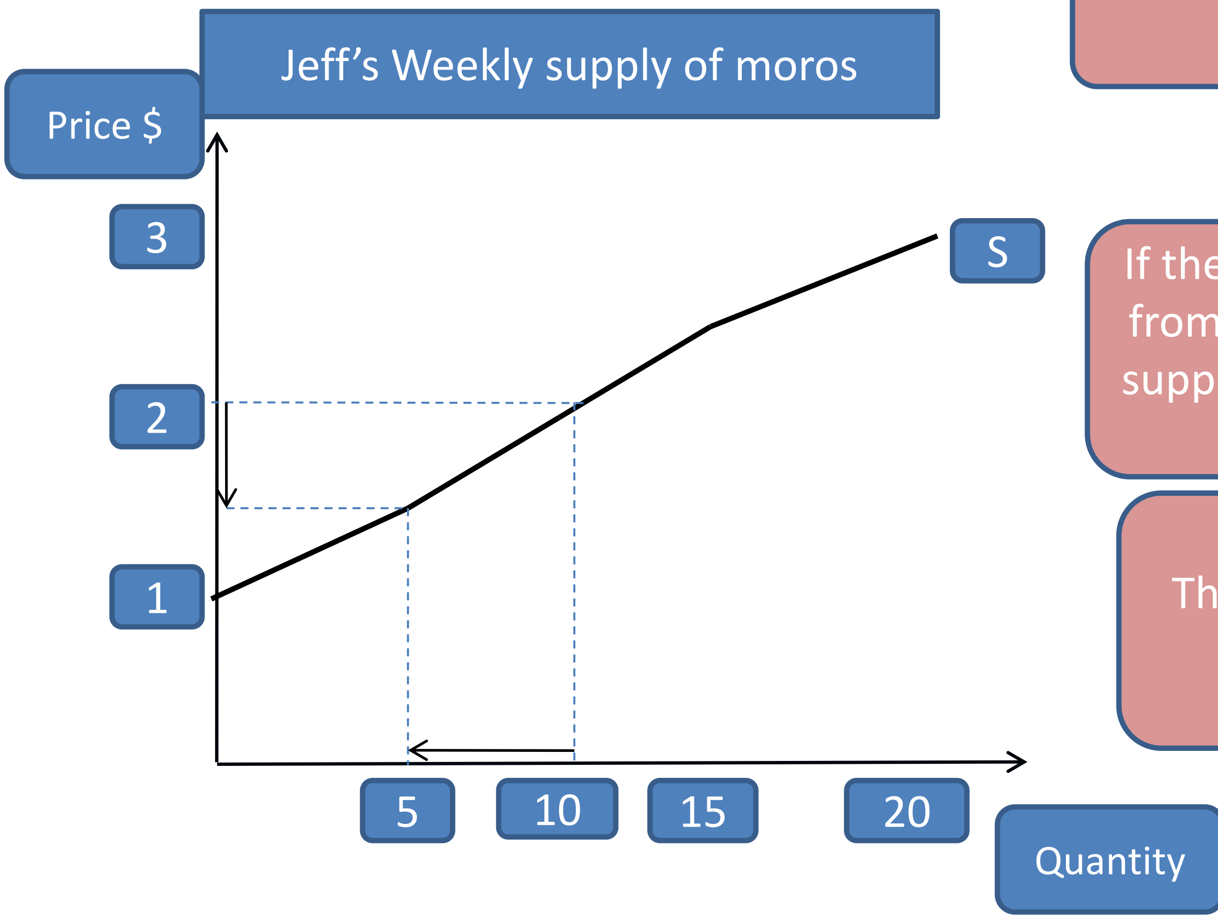
An increase in price from $2 to $2.50.

10 to 15).

The diagram must have arrows to show the direction of the change.

This is called an **increase in the quantity supplied**

Change in Quantity Supplied



An decrease in price from $2 to $1.50.

If the price were to decrease from $2 to $1.50, Jeff would supply 5 fewer moros. (from 10 to 5).

This is called an **decrease in the quantity supplied**

The Law of Supply

The law of supply states – as the price of a product increases the quantity supplied will increase (and vice versa) **ceteris paribus.**

This is because the producer can no longer make as much profit off this product.

The producer will therefore shift their resources into producing a more profitable product (and produce less of this one).

The law of supply means that the supply curve will always slope upwards to the right

Influences on Supply

- Supply is influenced by 5 main factors:
  1. Price of the product
  2. Price of related goods (use same resources)
  3. Cost of Raw Materials
  4. Cost of Labour
  5. Productivity of Labour
- 2 – 7 are the factors held constant to meet ceteris paribus assumption.

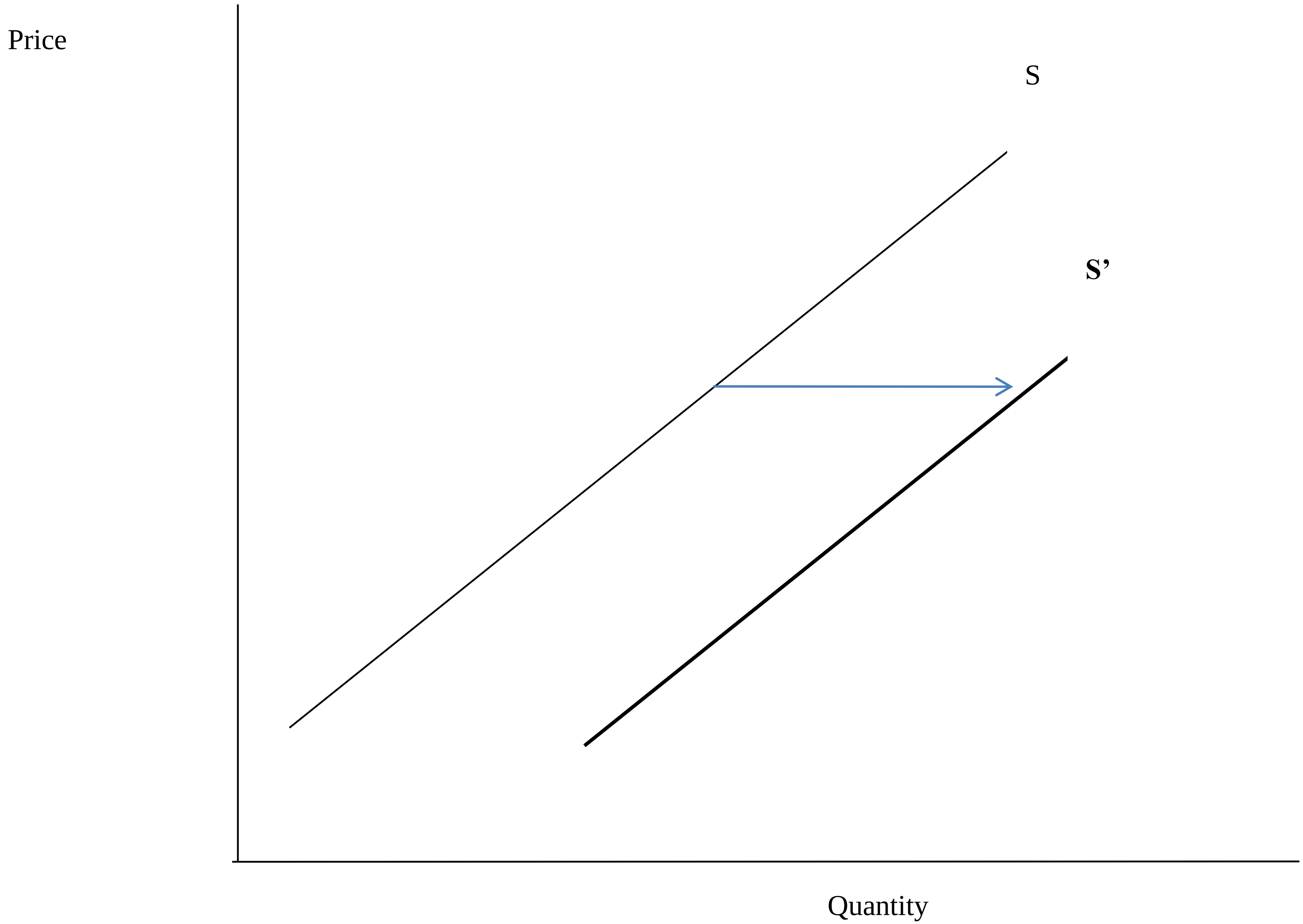
Shift of the supply curve

- The supply curve will shift to the right (increase in supply) when:

1. The price of a related good falls
2. The cost of raw materials decreas
3. Wage rates decrease
4. Productivity of labour increases
5. Anything else that causes costs of production to fall (new technology etc)

Shift left when opposite happens

Increase in supply



Factors that influence costs of production and costs

Environmental factors – A firm that tries to produce in a way that minimises impact on the environment (organic orchards for example) may face greater costs and therefore decrease supply.

Legal factors - Government regulations can impact on costs. For example tighter health and safety laws, packaging requirements etc will increase the costs of producers and reduce supply

Political factors – the government may discourage or encourage production of certain goods through taxes (increase costs) or subsidies (decrease costs)

Trade factors – restrictions on trade in foreign markets can impact on a firm's costs. For example tariffs that are a tax on NZ exports to Europe increase the costs of NZ firms.