Edexcel (B) Economics A-level

Theme 1: Markets, Consumers and Firms

1.3 Introducing the Market

1.3.2 Supply

Notes

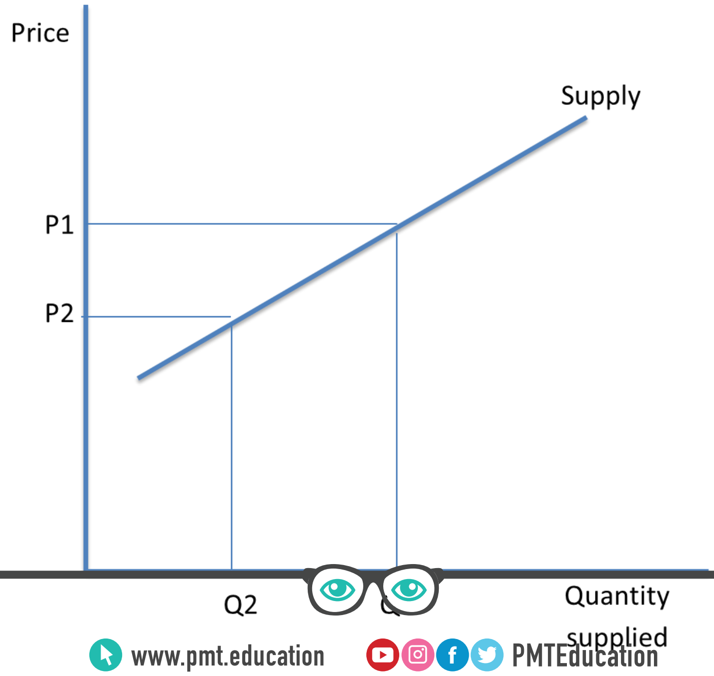
- **Individual supply** is the supply that a producer is willing and able to sell at a given price in a given period of time.
- **Market supply** is the sum of all individual supplies in a market.

Types of supply:

- **Joint supply:** This is when increasing the supply of one good causes an increase or decrease in the supply of another good. For example, producing more lamb will increase the supply of wool.
- **Composite supply:** This occurs when a good or service can be obtained from different sources. For example, light can be produced from candles, electricity and gas.
- **Competitive supply:** If the raw materials producing the good in composite supply are perfect substitutes of each other, the sources of supply are in competition to satisfy a particular need or want. For example, if electricity and candles were substitutes and cost the same to produce, they would compete to produce the good, light.

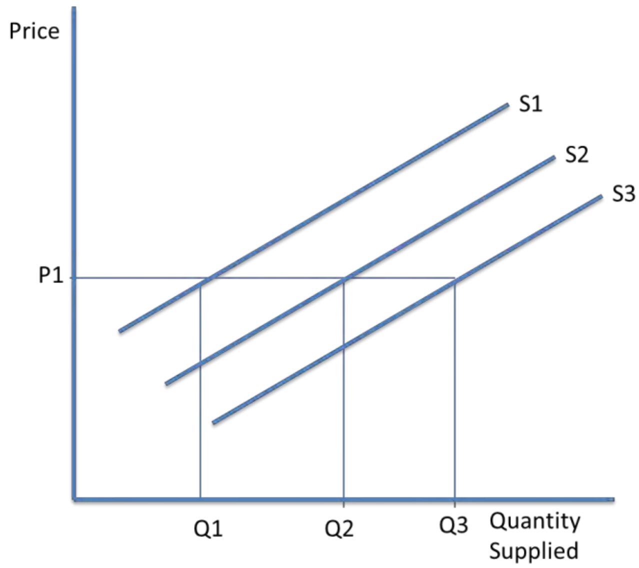
- Supply curves are upward sloping because:
  - If price increases, it is more profitable for firms to supply the good, so supply increases.
  - High prices encourage new firms to enter the market, because it seems profitable, so supply increases.
  - With larger outputs, firm's costs increase, so they need to charge a higher price to cover the costs.

Movements along the supply curve:



- At price P1, a quantity of Q1 is supplied. At the lower price of P2, Q2 is supplied. This is a **contraction** of supply. If price increases from P2 to P1, QS increases from Q2 to Q1. This is an **expansion** of supply. Only changes in price will cause these movements along the supply curve. This is based on the theory of the **profit motive.** Firms are driven by the desire to make large profits.

- **Shifting the supply curve:**



- Price changes do not shift the supply curve. A shift from S1 to S2 is an outward shift in supply, so a larger quantity of goods is supplied at the market price of P1. A shift from S3 to S1 is an inward shift in supply. More goods are supplied at the market price of P1.
- The factors that shift the supply curve can be remembered using the mnemonic PINTSWC:
    - **P- Productivity.** Higher productivity causes an outward shift in supply, because average costs for the firm fall.
    - **I- Indirect taxes.** Inward shift in supply.
    - **N- Number of firms.** The more firms there are, the larger the supply.
    - **T- Technology.** More advanced the technology causes an outward shift in supply.
    - **S- Subsidies.** Subsidies cause an outward shift in supply.
    - **W- Weather.** This is particularly for agricultural produce. Favourable conditions will increase supply.

- **C- Costs of production.** If costs of production fall, the firm can afford to supply more. If costs rise, such as with higher wages, there will be an inward shift in supply.
- Also, depreciation in the exchange rate will increase the cost of imports, which will cause an inward shift in supply.