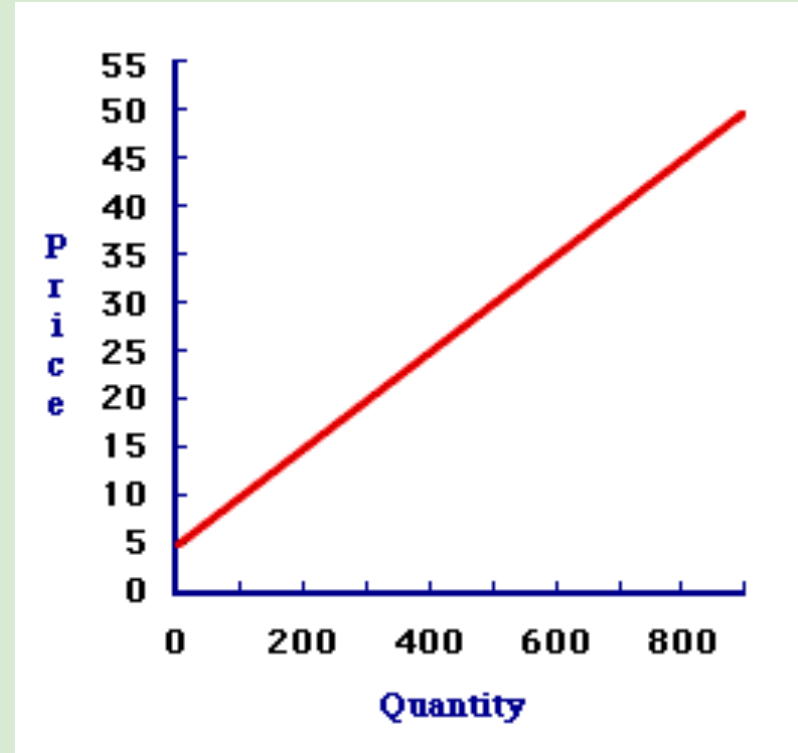


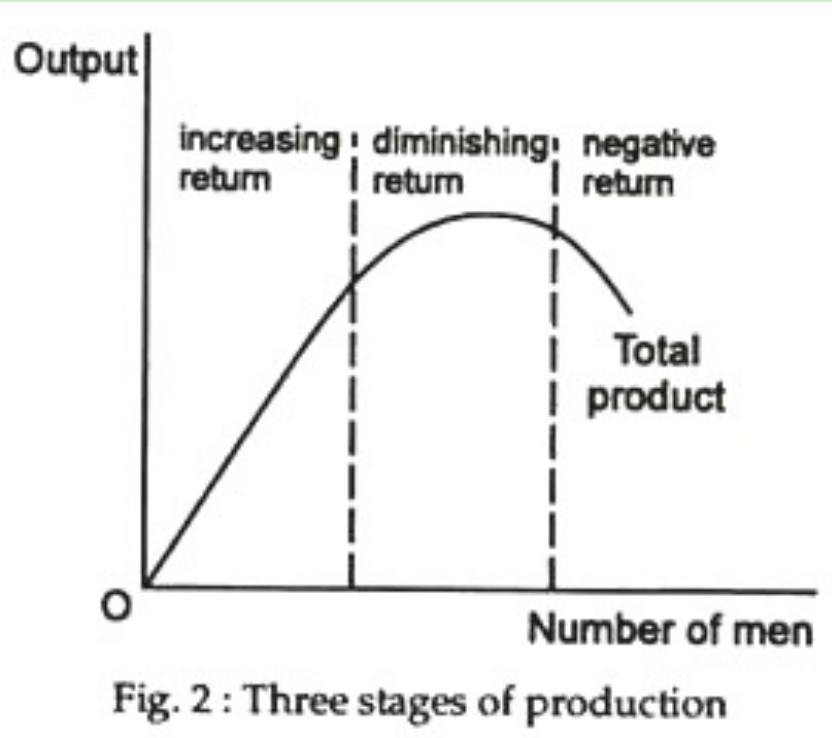
Producer Supply

Supply

Supply-the amount of a good/service that producers will supply at a given price

Law of supply-as the price of a good/service increases producers supply more; as the price decreases they will supply less





Diminishing Returns

Diminishing returns-the producer can only produce so much of the product before the cost to produce it is more than the profit received from its sale.

Ex. Eventually it costs more to mine gold than the gold is worth

Elasticity

Elasticity-how much a change in price affects the supply of the product

Elastic supply-a change in price greatly affects the quantity produced

Inelastic supply-a change in price does NOT greatly affect the quantity produced

Elastic and Inelastic Supply Curves

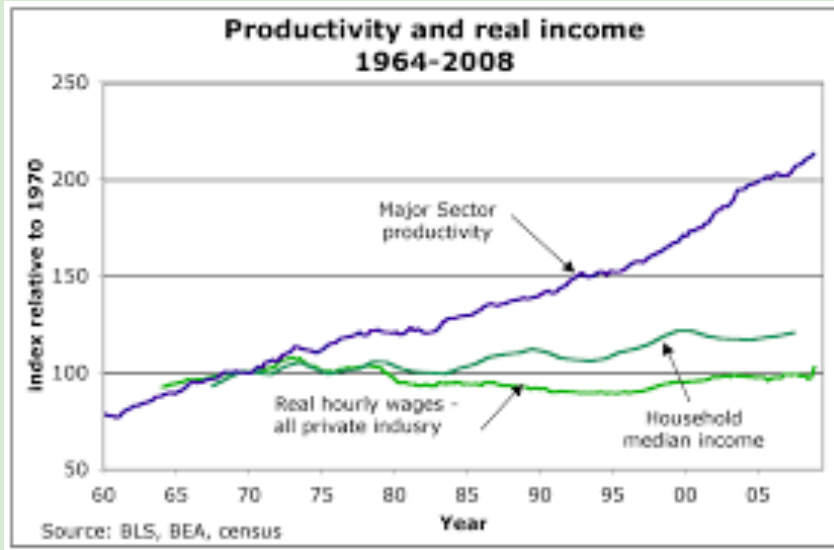
Elastic supply: $P_{es} > 1$
Change in demand can be met
without large rise in price



Inelastic supply: $P_{es} < 1$
Supply relatively unresponsive to a
change in demand



Productivity



Productivity-the amount of a good or service that can be produced in a given time

Increases in productivity allow producers to make more of a product in a given time and at the same time decrease the price and increase profits

Better technology is the major way to increase productivity

Cost of Resources

The cost of the materials that go into goods and services can affect the amount which can be supplied at a given price

- higher wages lower supply
- cheaper resources increase supply



Company Expectations

Producers as well as consumer make economic plans. A company that expects record sales will increase its supply levels.

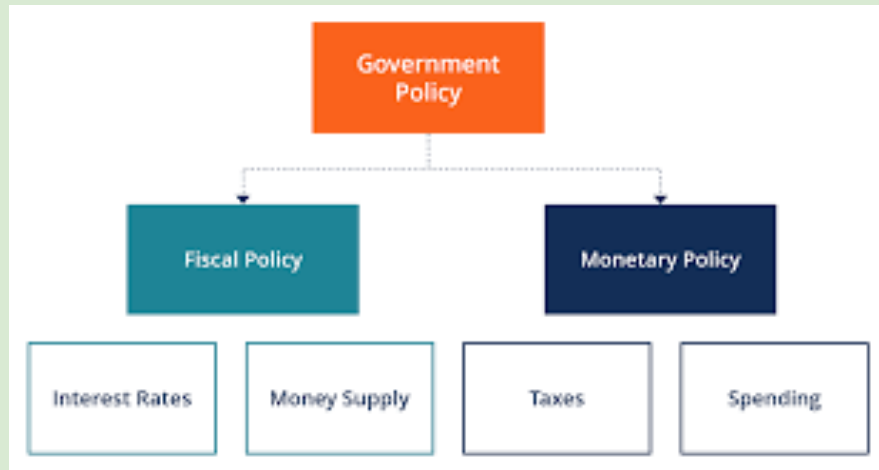
Economic forecasts by the government are very important to large producers.



Government Policy

More regulations decrease supply
Less regulations increase supply

Higher taxes lower supply
Lower taxes increase supply



Alternative Products

Supply can also be affected by other products that producers could supply

If the price falls for one product then they will supply less and shift to production of another type of product

