Law of Supply

*Direct Relationship

*Why is this the case?
  - Profit incentive motivates people to produce
  - At some point, the higher the price, the less likely people are to buy (excess supply)
Law of Diminishing Marginal Returns

A level of production in which the marginal product of labor decreases as the number of workers increase.

At some point, adding only 1 more factor of production will not increase production. Why?
Factors Influencing Supply

Input Costs:
Change in the cost of what goes into making the products or providing the services.

Example: Price of cheese increases. Dominoes will supply less pizza b/c only so much $ allowed for inputs.
Factors Influencing Supply

- Technology
  - Advances in technology can lower production costs
  - Technology
  - Supply
    Produces more wings in faster time.
    Supply of wings at JP’s increases
Factors Influencing Supply

• Govt. Influence
  – Subsidies – govt. payment that supports a business or market
    • Govt. protects industries to allow them to grow.
    • Example: Protect new energy industries.
    • Energy Industries ➔ Supply
Factors Influencing Supply

• Govt. Influence
  – Taxes
    • Excise tax – tax on production or sale of goods/services
    • Example: Cigarette Tax
    • Income Tax – tax on profits
    • Example: Higher Profits = Taxes
Factors Influencing Supply

• Govt. Influence
  – Regulation – govt. intervention in a market affects price, quantity and quality
  – Example: Environmental Regs.

Supply
Factors Influencing Supply

• Global Economy – goods or services produced in one country and imported to another country

  – Example: China and TV’s

  Wages in China ↑ Supply of TV’s
Factors Influencing Supply

• Number of Firms in the Industry
  – More suppliers = More supply of a good or service available
  – Example:
    • Pizza Industry
      • # of Pizza Places
  – Future expectations of prices
    • Price Expected
    • # of Suppliers

Supply of Pizza