GCSE Economics: Theme 2.3 Supply

What do economists mean by Supply?

What is Supply?

The quantity of a good or service that producers are willing and able to supply at a given price in a given time period.

What is the relationship between price and supply?

As prices increase, supply increases. As prices fall, supply falls.

What is the law of supply?

For most goods and services the quantity demanded varies ***directly*** with price.

What is individual supply?

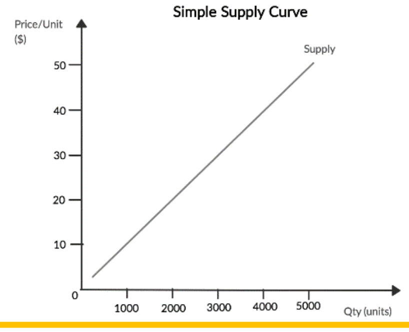
The supply of goods and services by an individual producer. This shows the amount they would be prepared to sell at difference prices. It ***does not*** tell us how many they will sell.

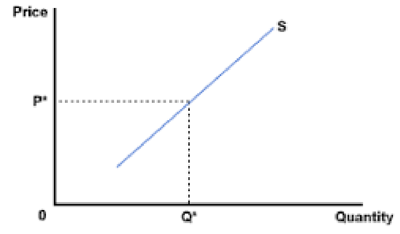
What is a market supply?

The total supply of a good or service. It can be found by adding the individual producers supply together.

How do you draw supply?

The supply curve is plotted sloping upwards between ***Price*** on the vertical axis and ***Quantity*** on the horizontal axis.

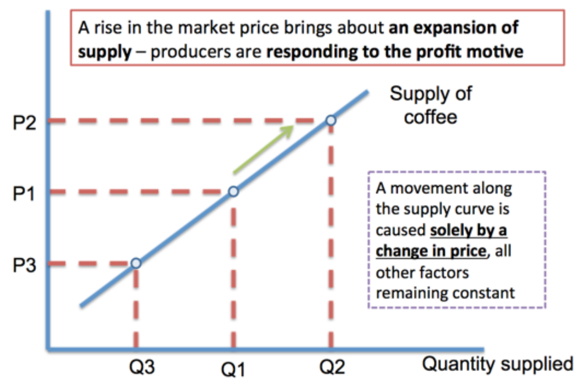




What is the difference between a movement along and a shift in Supply? (a)

What causes a movement along the curve/How do you draw a movement?

A change in price is the only thing that will cause a movement along the curve.



What are the consequences of movements along the curve?

A movement along the demand curve will lead to price and quantity moving in the opposite direction. Price increases may lead to increased profits or new firms entering the market, causing a shift.

Movement	Effect
Increase in quantity supplied due to a rise in price causing a movement up the curve	Both price and quantity supplied rise ***(an expansion of demand)***
Decrease in quantity supplied due to an fall in price causing a movement down the curve	Both price and quantity supplied fall ***(an expansion of demand)***

Exam Criteria

- **Explain** what is meant by supply
- **Draw and Explain** individual supply curves
- **Draw and Explain** market supply curves
- **Analyse** the causes and consequences of shifts in the supply curve for consumers and producers
- **Analyse** the causes and consequences of movements along the supply curve for consumers and producers
- **Draw** shifts in the supply curve
- **Draw** movements along the supply curve
- **Explain** price elasticity of supply
- **Draw** supply curves of different elasticities
- **Evaluate** the importance of price elasticity of supply for consumer

Key Vocab

Word Wall

Regulation – the action of controlling by means of rules. A rule or directive set by authority.

Subsidy – An amount of money the government gives directly to firms to encourage production and consumption

Elasticity – the degree to which a supply or supply is sensitive to changes in price or income.

Elastic – When the percentage change in quantity supplied is greater than the percentage change in price

Inelastic – When the percentage change in quantity supplied is less than the percentage change in price

Key Terms

Supply – The willingness and ability to purchase a good or service at the given price in a given time period

Tax – A compulsory payment to the government

Law of Supply – For most products the quantity supplied varies directly with its price

Individual Supply – The supply for a good or service by an individual producer

Market Supply – The total supply for a good or service

Movement along the curve – When the price changes, leading to a movement up or down the existing curve

Shift of the curve – A complete movement of the existing supply curve either outward or inward

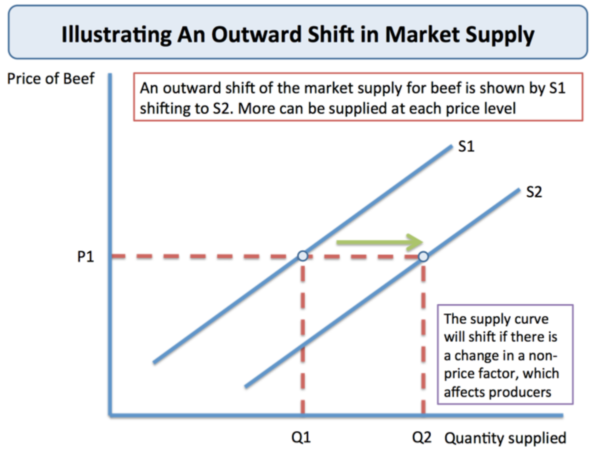
What is the difference between a movement and a shift in Supply? (b)

What causes a shift in supply /How do you draw a shift?

This is when the whole demand curve moves to the right or left. This occurs when the quantity of a good demanded changes even when price stays the same.

Factors affecting demand:

- Income
- Population
- Marketing
- Tastes/Fashion
- Substitutes/Compliments
- Government policies
- Price expectations for future



What are the consequences of shifts in supply?

In nearly all cases a shift of the supply curve will lead to price and quantity moving in opposite directions. Other consequences are:

- Economies of scale (*chapter 2.6*)
- Efficiency (*chapter 2.6*)
- Sales
- Exports (*chapter 4.1*)
- Monopoly (*chapter 2.5*)

Movement	Effect
Increase in supply due to a rightward shift of the supply curve	Price falls and the quantity supplied increased
Decrease in supply due to a leftward shift of the supply curve	Both the price and quantity demanded of the product decreases

Study Tips

Remember to label a diagram fully. If you leave off price and quantity then the person marking the paper has no idea what is being measured.

Make sure you are absolutely clear as to the difference between a movement of a supply curve, a shift in supply and a change in quantity supplied.

Supply can also refer to the supply of labour (*chapter 2.7*) and the supply of money (*chapters 2.8 and 3.6*).

Why is Price Elasticity of Supply important?

What is elasticity of supply?

A measure of the responsiveness of quantity supplied to a change in the price of the product.

What does inelastic supply mean?

The price change will lead to a smaller change in supply.

The PES value will be between 0 and -1.

What does elastic supply mean?

The price change will lead to a larger change in supply.

The PES value will be between -1 and infinity.

How does PED affect producers?

In most cases an elastic PES is better. Elasticity can be increased by:

- Adopting the latest technology
- Creating spare capacity
- Improving storage methods
- Keeping large amounts of stock
- Training employees in more than one job

How do you calculate PES?

$$\frac{\%\ \text{Change in Quantity Supplied}}{\%\ \text{Change in Price}}$$

What does unitary supply mean?

The price change will lead to the exact change in supply.

The PES value is 1.

What do the PED values mean?

Value	Name	How responsive?	Slope of curve
0	Perfectly inelastic	No change in supply	
0-1	Inelastic	Change in supply less than change in price	
1	Unitary	Equal changes	
1-∞	Elastic	Change in supply higher than change in price	
∞	Perfectly elastic	Any change in price kills supply	

How does PES affect consumers?

If supply is inelastic it might make it difficult to buy more of a product without paying more.

If supply is fixed (popular concerts) the ability to pay may not guarantee the product.

PES is elastic it is easier to obtain the product but less flexibility in negotiating price.

What do the PES curves look like?