1.2.4 Supply

a) The distinction between movements along a supply curve and shifts of a supply curve
b) The factors that may cause a shift in the supply curve (the conditions of supply)

- Supply: the quantity of a good or service that a producer is willing and able to supply onto the market at a price in a given time period. When the price rises it becomes more profitable to supply a product so they have an incentive to increase production. A fall in price causes supply to be less profitable
- The basic law of demand: as the price of a product rises businesses expand supply to the market
- Supply curve: it shows a relationship between market price and how much a firm is willing and able to supply
- Profit motive: suppliers will be looking to get the best price for their product
- Reasons for the law of supply:
    - Profit motive- if the market price rises following an increase in demand, it becomes more profitable for a firm to increase their output
    - Production and costs- when output expands, a firm's costs tend to rise so a higher price is needed to cover these costs. This may be due to the effects of diminishing returns as more factor inputs are added to production
    - New entrants coming to the market: higher prices may create an incentive for other businesses to enter a market leading to an increase in supply
- A rise in the market price brings about an expansion of supply as producers are responding to the profit motive
- Movements along the supply curve are caused by price changes and the curve doesn't change position while shifts are when the whole curve moves due to other factors. If it shifts to the left there is a decrease in supply and an increase if it shifts to the right
- A movement along the supply curve is caused solely by a change in price, all other factors remain constant
- If market prices fall we expect to see a contraction in supply as producers have less incentive to produce at lower prices
- Market supply is the total supply brought to the market by producers at each price
- In some industries the price may fall so low that some suppliers decide to leave
- Supply is not necessarily the amount sold, since if consumers do not wish to buy the products they remain unsold
- Causes of shifts in the Supply curve:
    - Changes in the unit costs of production
        - Lower unit costs mean business can supply more at each price (outward shift)
        - Higher unit costs mean it is more expensive for resources or labour so less is supplied (inward shift)

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    - A fall (depreciation) in the exchange rates
    - Advances in production technologies or increases in productivity- outward shift
    - The entry of new producers- outward shift
    - Discoveries of new reserves of a raw material
    - Number of suppliers- decrease costs
    - Favourable weather conditions e.g. for agricultural products
    - Taxes, subsidies and government intervention
        - Indirect taxes cause an outward shift of supply
        - Subsidies cause an outward shift of supply
        - Regulations increase costs by causing an inward shift of supply
- The supply curve will shift if there is a change in a non-price factor, which affects producers
- An inwards shift means less is supplied at each price level but an outward shift means more will be supplied at each price level
- The main cause of an inward shift is an increase in production costs
- How much the supply curve shifts depends on how important a particular cost is to a firm
- Joint supply is where an increase or decrease in the supply of one good leads to an increase or decrease in the supply of a by-product
    - E.g. contraction in the supply of lamb will reduce the supply of wool

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