Supply Cheat Sheet

by liviabrookes via cheatography.com/164261/cs/34787/

Law of Supply

Individual Supply	the quantity of a good or service that a producer is willing and able to produce at a range of prices.
The Law of Supply	states that as price increases, quantity supplied increases, assuming ceteris paribus*, vice versa.

This means that there is a positive relationship between price and quantity supplied, which means as one rises, the other will also.

*Ceteris paribus means that any other factor affecting the supply of that good is held constant.

Key Definitions

Production	the process of transforming inputs into goods
Productivity	the rate of output, or output divided by input
Profitability	how much profit a good is making- profit=revenue-costs
Technology	methods, processes, and man-made capital used in the production process
Tariff	a tax on imported goods

when profitability increases, the difference between costs and revenue is greater.

Related Goods

Goods that can be produced using the same or similar resources. Which good is produced depends on which has a relatively higher price.

For example, apples and pears are related goods because they can be supplied in place of each other. This is because they take similar resources to produce: orchid, pickers, fertiliser, etc.

Merit and Demerit Goods

-The government can encourage the production of merit goods by subsidising producers:

This means they make payments to firms to help them reduce their cost of production.

This would increase supply and shift the supply curve right.

-The government can also discourage the production of demerit goods by imposing indirect taxes:

This means firms are charged extra to produce these products so cost of production increases.

This would decrease supply and shift the supply curve left.

Merit goods are goods that the government deem beneficial for society eg. vaccinations
Demerit goods are goods that the government deem harmful for society eg. cigarettes

Non-Price Factors

Factors that influence the amount producers choose to supply, not related to price.

Internal Factors include: (factors within business control)

-costs of production	-price of related goods^
-level of technology	-productivity

^when mentioning related goods, describe how resources are diverted to the relatively more profitable good.

External Factors include: (factors outside business control)

-political	-environmental
-legal	-trade restrictions*

Factors that may cause an increase in supply

Non-Price Factors (cont)

-resources required to produce the good decrease in cost	-worker training advances, allowing for increased employee productivity

-the selling price of a related good decreases

Factors that may cause a decrease in supply

-resources required to produce the good increase in cost	-minimum wages for workers increase

-it is not peak-season for the demand of this product (eg. bikinis in winter)

*you can remember external non-price factors with the acronym PELT.
-Price factors are shown as a movement along the supply curve
-Non-price factors are shown as a shift in the supply curve
when non-price factors cause the supply curve to shift rightwards, the quantity supplied increases at each and every price.