

4 Demand

5 Supply and Equilibrium

6 Changes in Equilibrium

7 Price Controls and Quantity Controls

8 International Trade



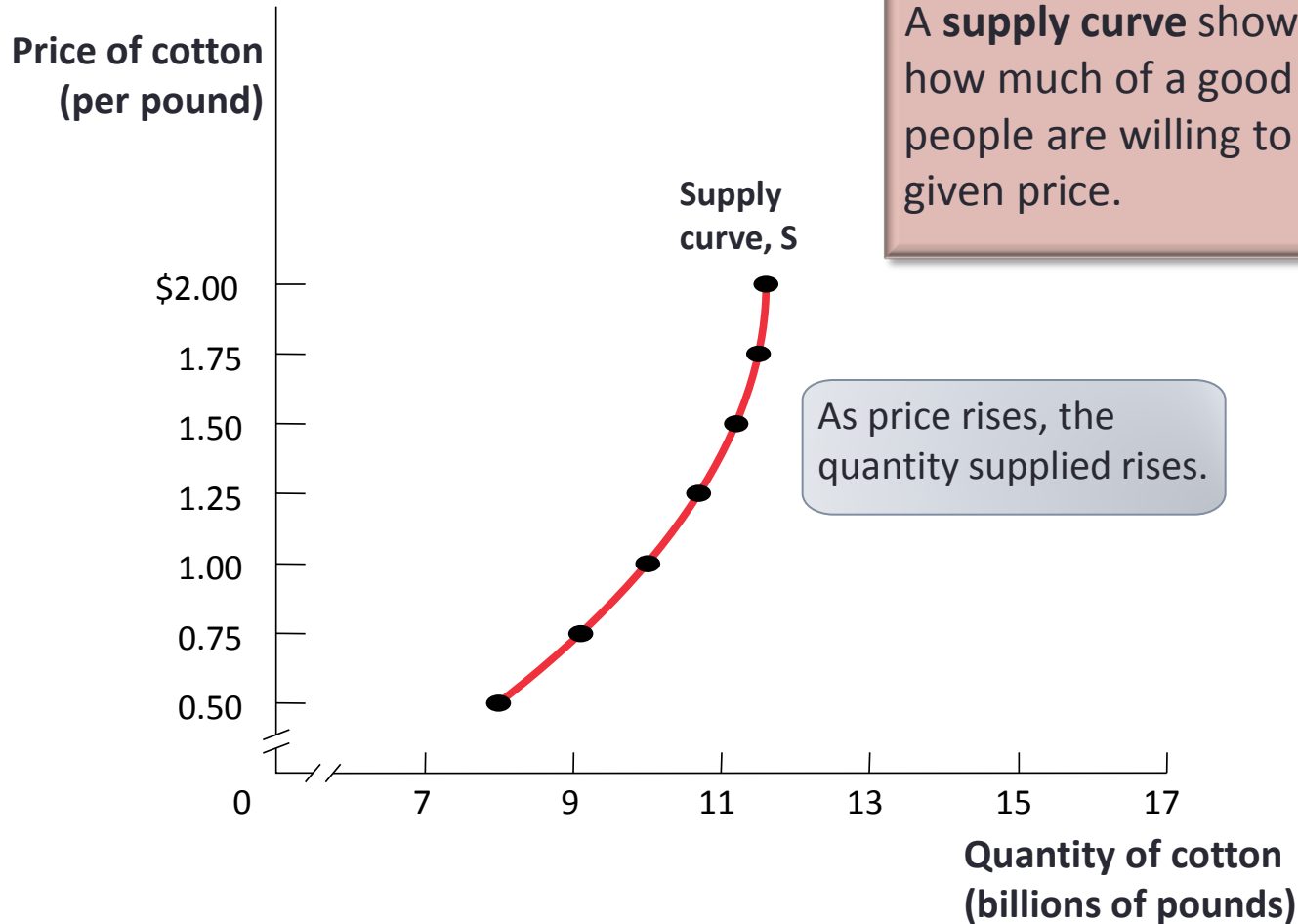
The Supply Schedule

- A **supply schedule** shows how much of a good or service would be supplied at different prices.



<i>Supply Schedule for Cotton</i>	
Price of cotton (per pound)	Quantity of cotton supplied (billions of pounds)
\$2.00	11.6
1.75	11.5
1.50	11.2
1.25	10.7
1.00	10.0
0.75	9.1
0.50	8.0

The Supply Curve



A **supply curve** shows graphically how much of a good or service people are willing to sell at any given price.

The Law of Supply

- The **law of supply** says that other things being equal, the price and quantity supplied of a good are positively related.

An Increase in Supply

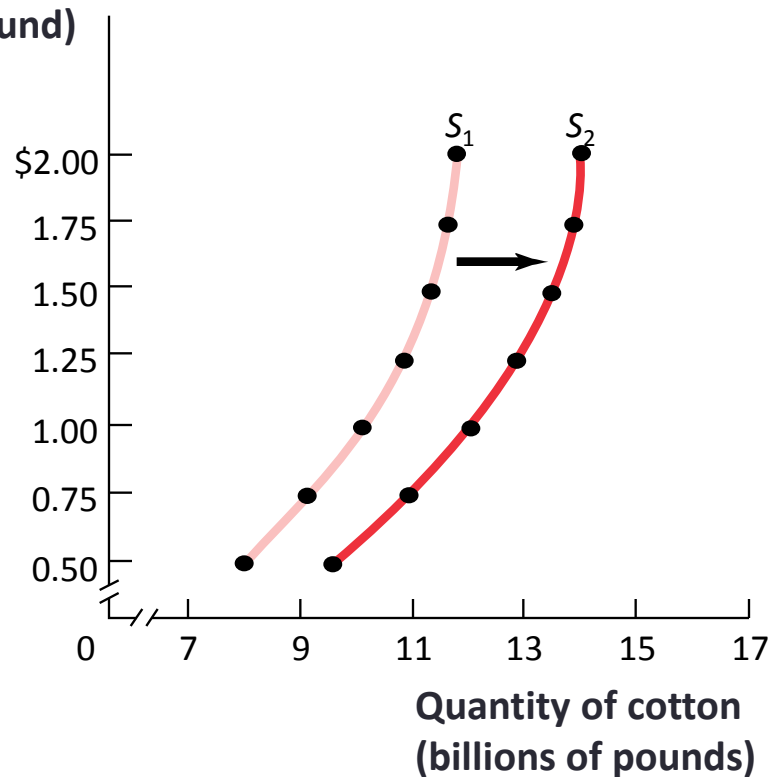
- The improvement in cotton-growing technology generated an *increase* in supply—a rise in the quantity supplied at any given price.

<i>Supply Schedule for Cotton</i>		
Price of cotton (per pound)	Quantity of cotton supplied (billions of pounds)	
	Before improvement	After improvement
\$2.00	11.6	13.9
1.75	11.5	13.8
1.50	11.2	13.4
1.25	10.7	12.8
1.00	10.0	12.0
0.75	9.1	10.9
0.50	8.0	9.6

An Increase in Supply

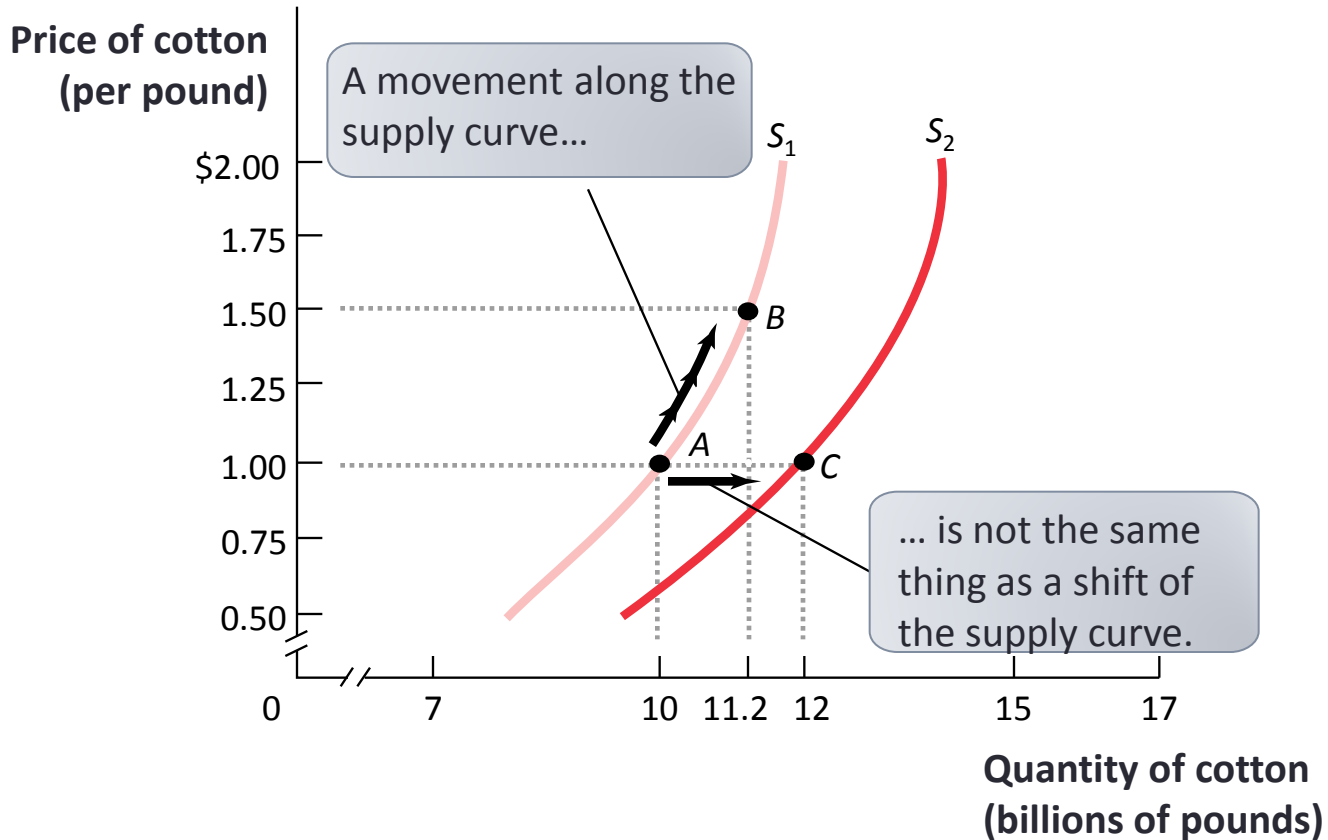
Improvement in the technology for growing cotton → more cotton producers.

Price of cotton
beans (per pound)



A **shift of the supply curve** is a change in the quantity supplied of a good at any given price.

Movement Along the Supply Curve



A **movement along the supply curve** is a change in the quantity supplied of a good as a result of a change in that good's price.

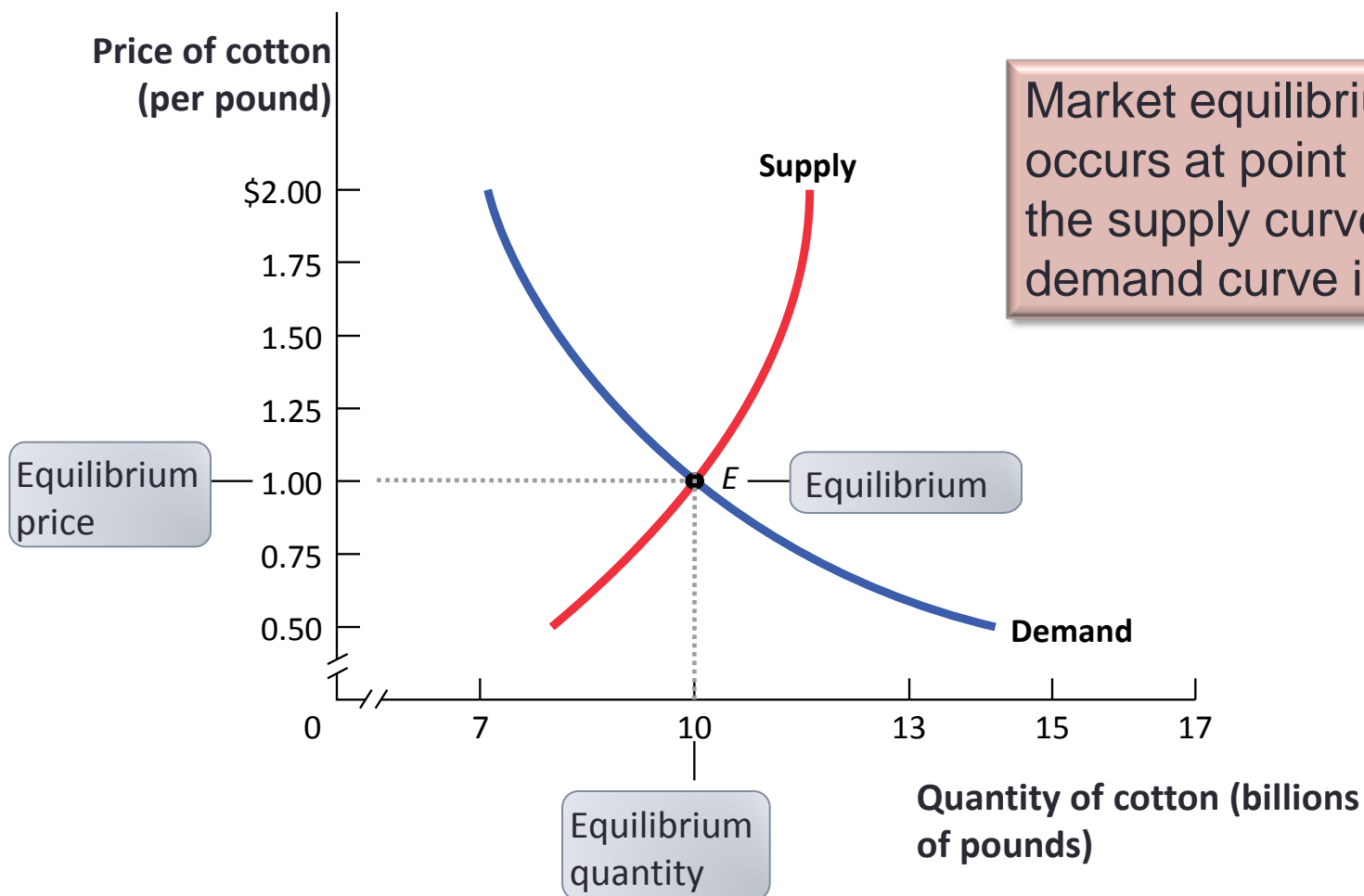
What Causes Shifts In the Supply Curve?

- Changes in input prices
 - An *input* is a good that is used to produce another good.
- Changes in technology
- Changes in expectations
- Changes in the number of producers

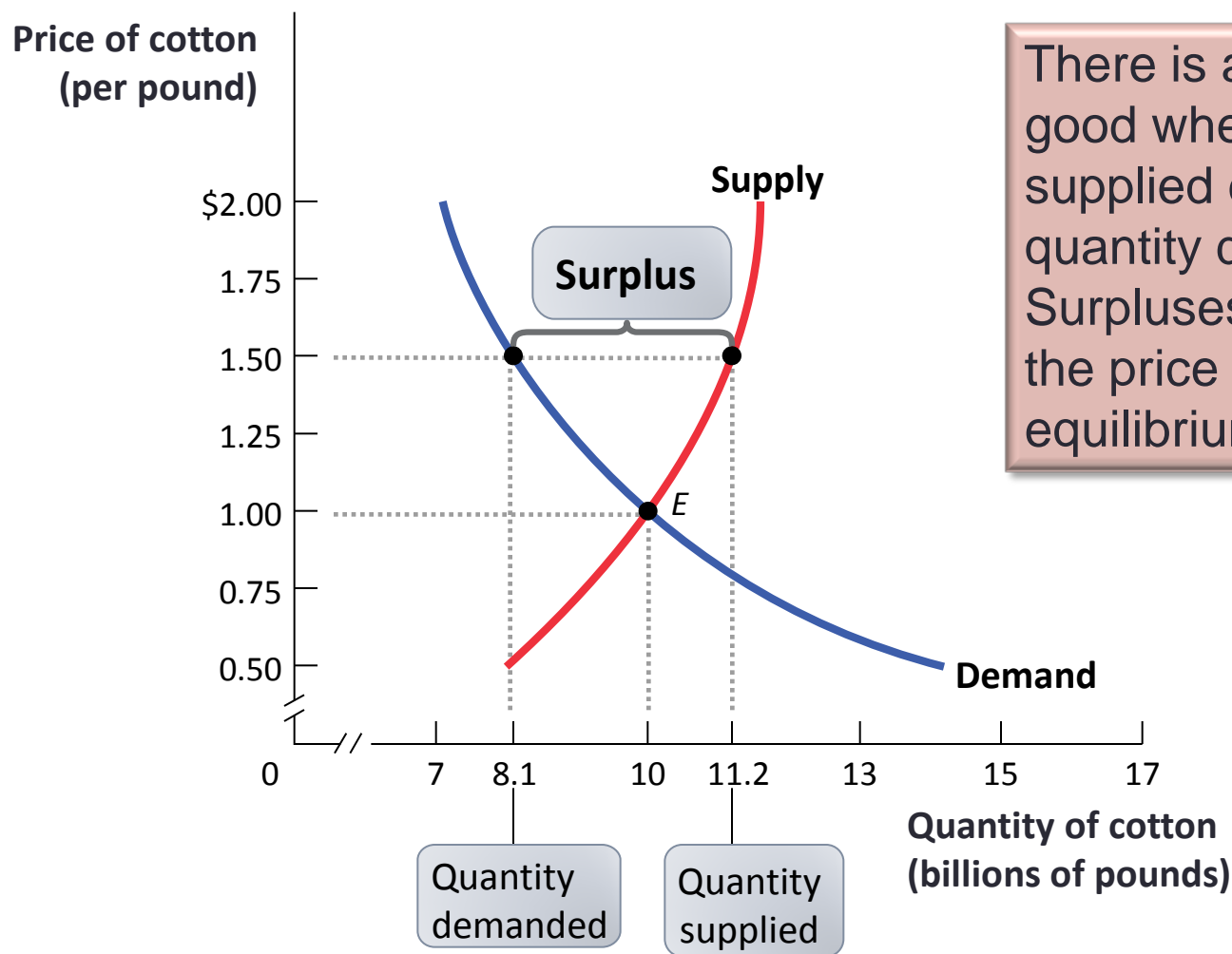
Supply, Demand, and Equilibrium

- **Equilibrium** in a competitive market: The quantity demanded of a good equals the quantity supplied of that good.
- The price at which this takes place is the **equilibrium or market-clearing price**:
 - Every buyer finds a seller and vice versa.
 - The quantity of the good bought and sold at that price is the **equilibrium quantity**.

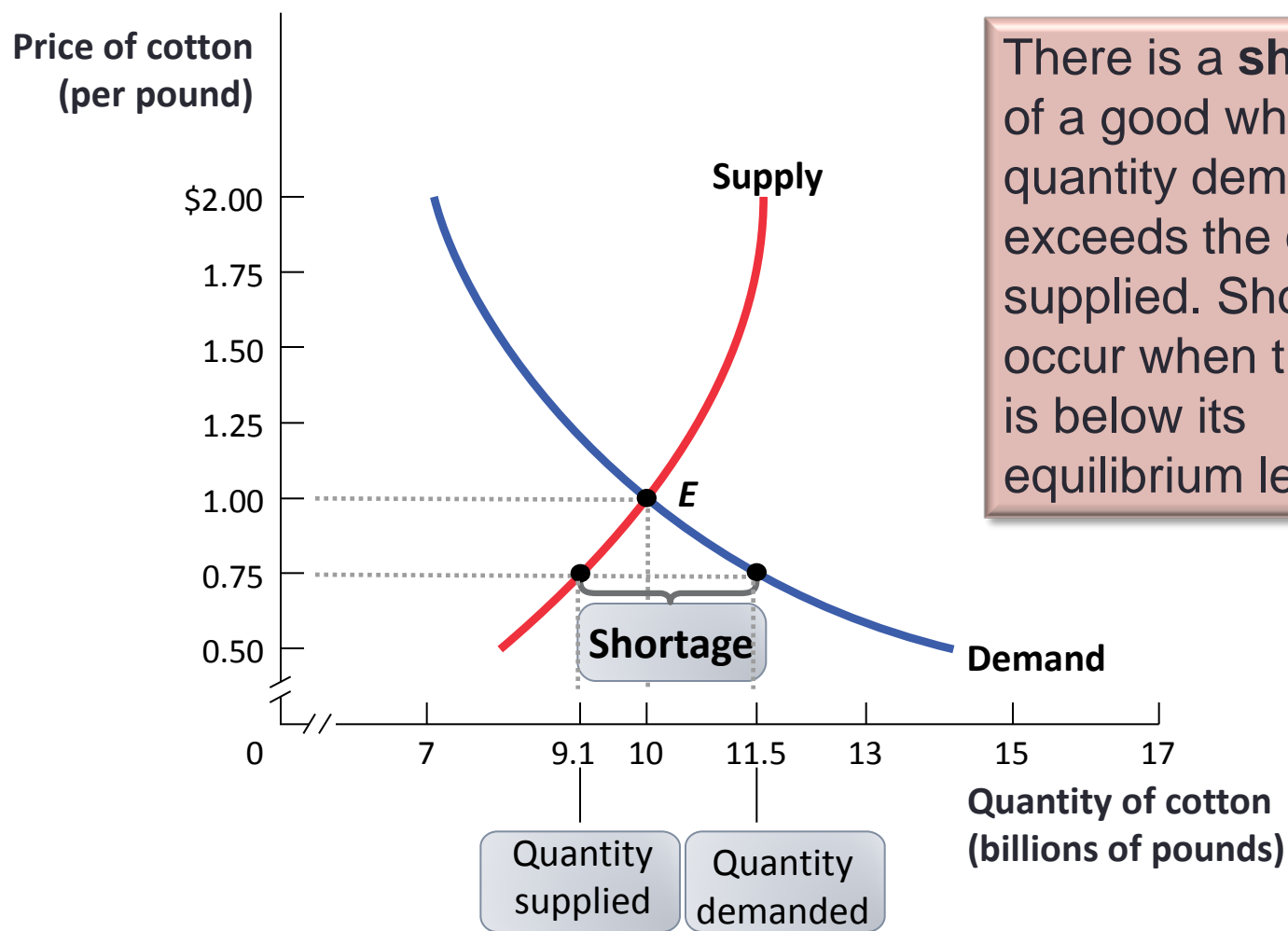
Finding the Equilibrium Price and Quantity



Price Above Its Equilibrium Level Produces a Surplus



Price Below Its Equilibrium Level Causes a Shortage



There is a **shortage** of a good when the quantity demanded exceeds the quantity supplied. Shortages occur when the price is below its equilibrium level.