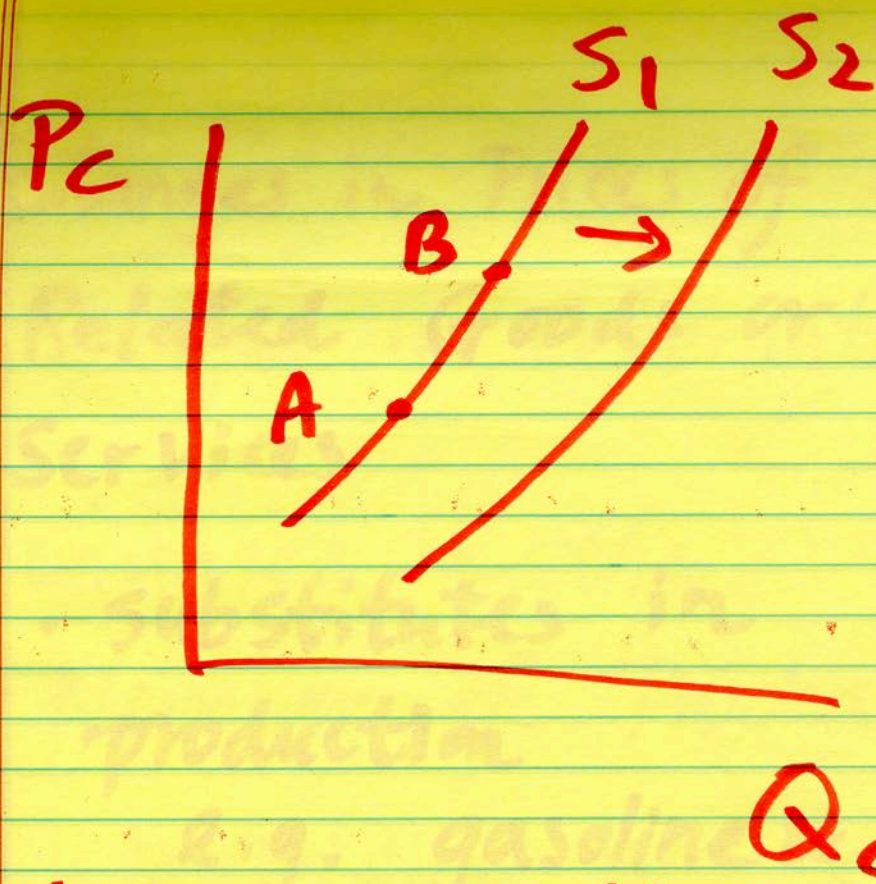


Supply

supply schedule: how much of a good or service producers will supply at different prices

supply curve

- movements along the supply curve
- shift of the supply curve



Shifts in Supply

- Changes in Input Prices

- Changes in Prices of Related Goods or Services

- substitutes in production

- e.g. gasoline & heating oil

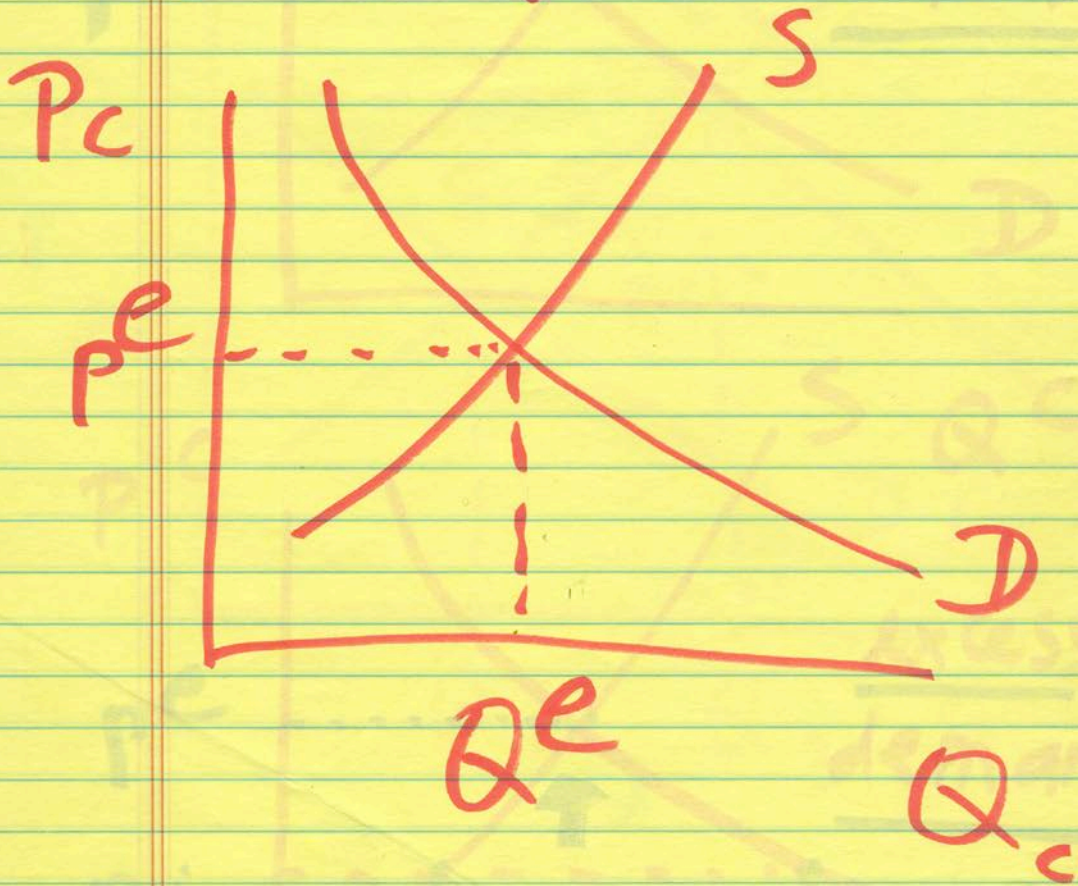
- complements in production

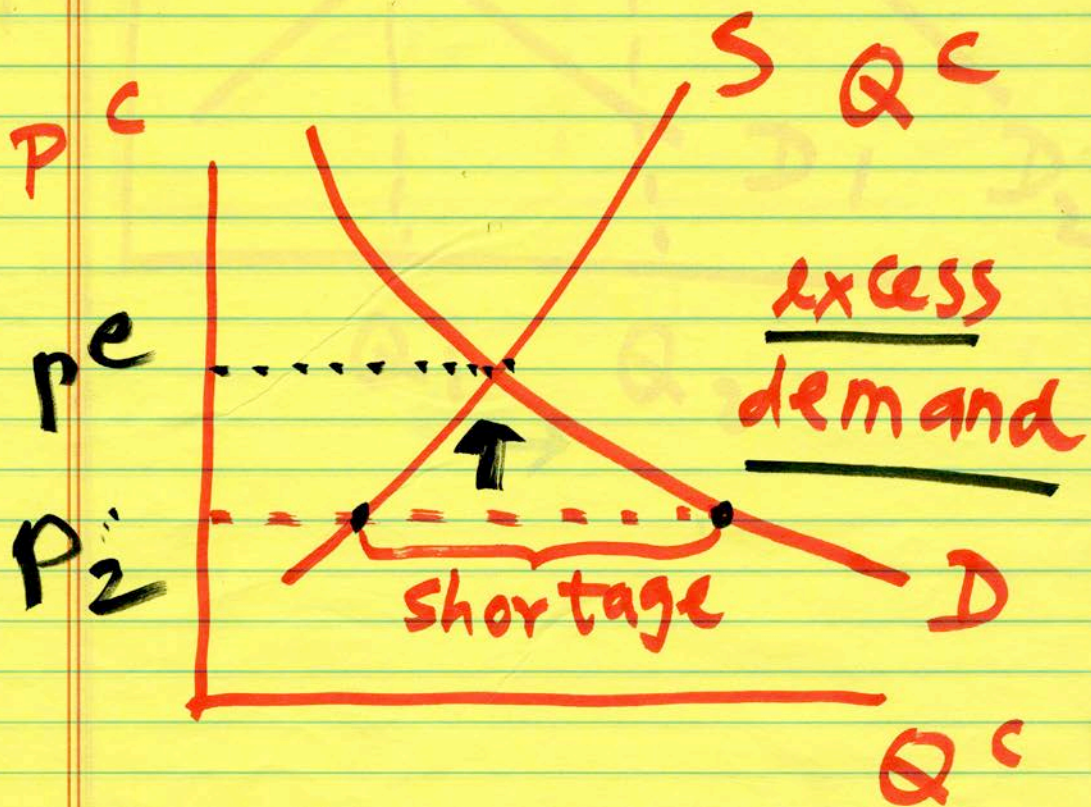
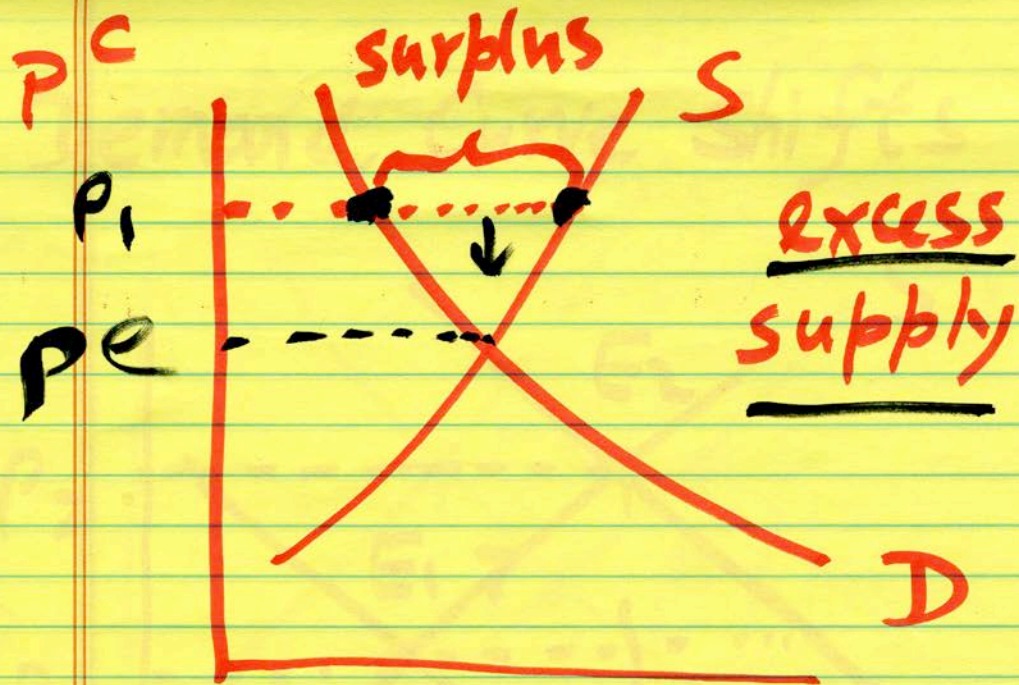
- crude oil & natural gas

- changes in Technology
- Changes in Expectations
- changes in the Number of Producers
 - individual supply curve
 - market supply curve

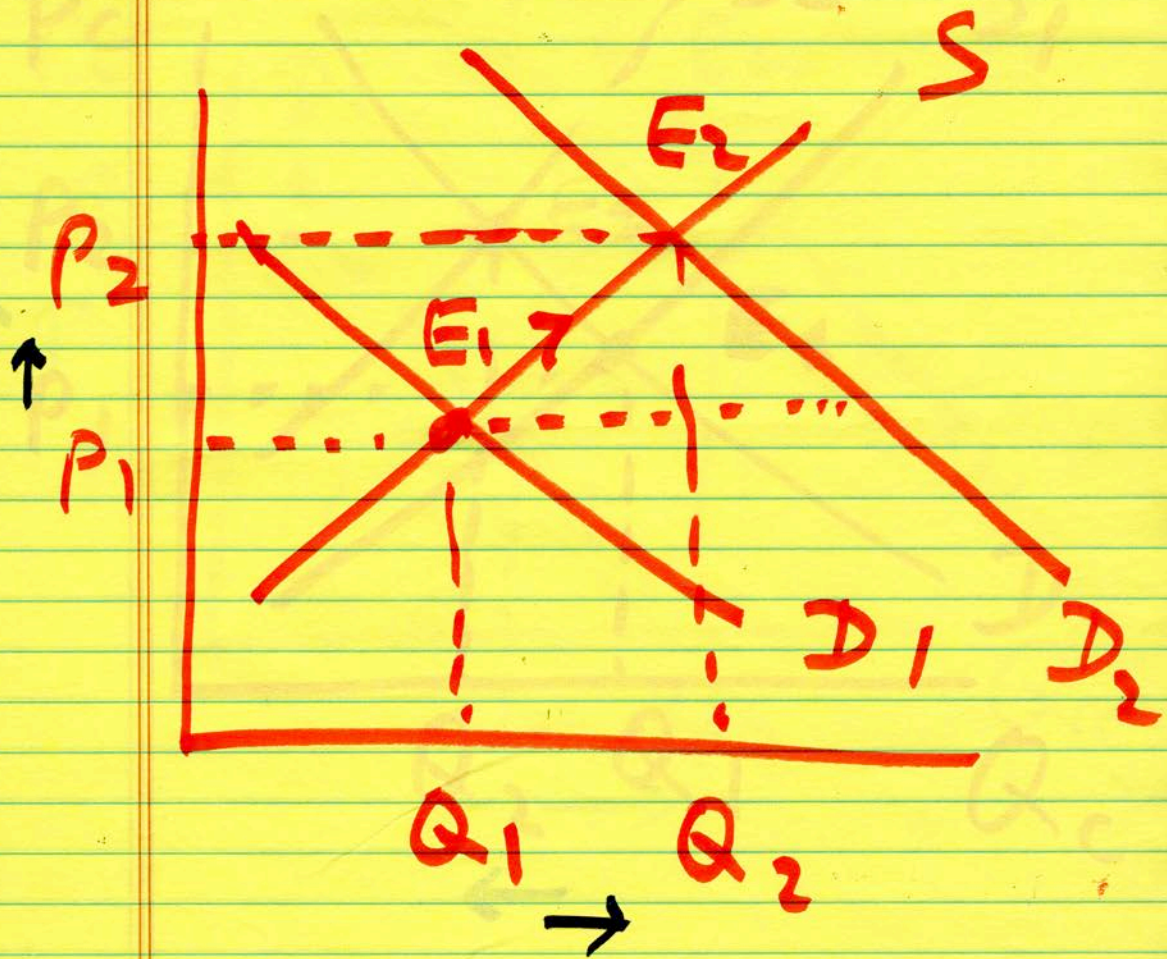
ch 3 (cont.)

Market Equilibrium

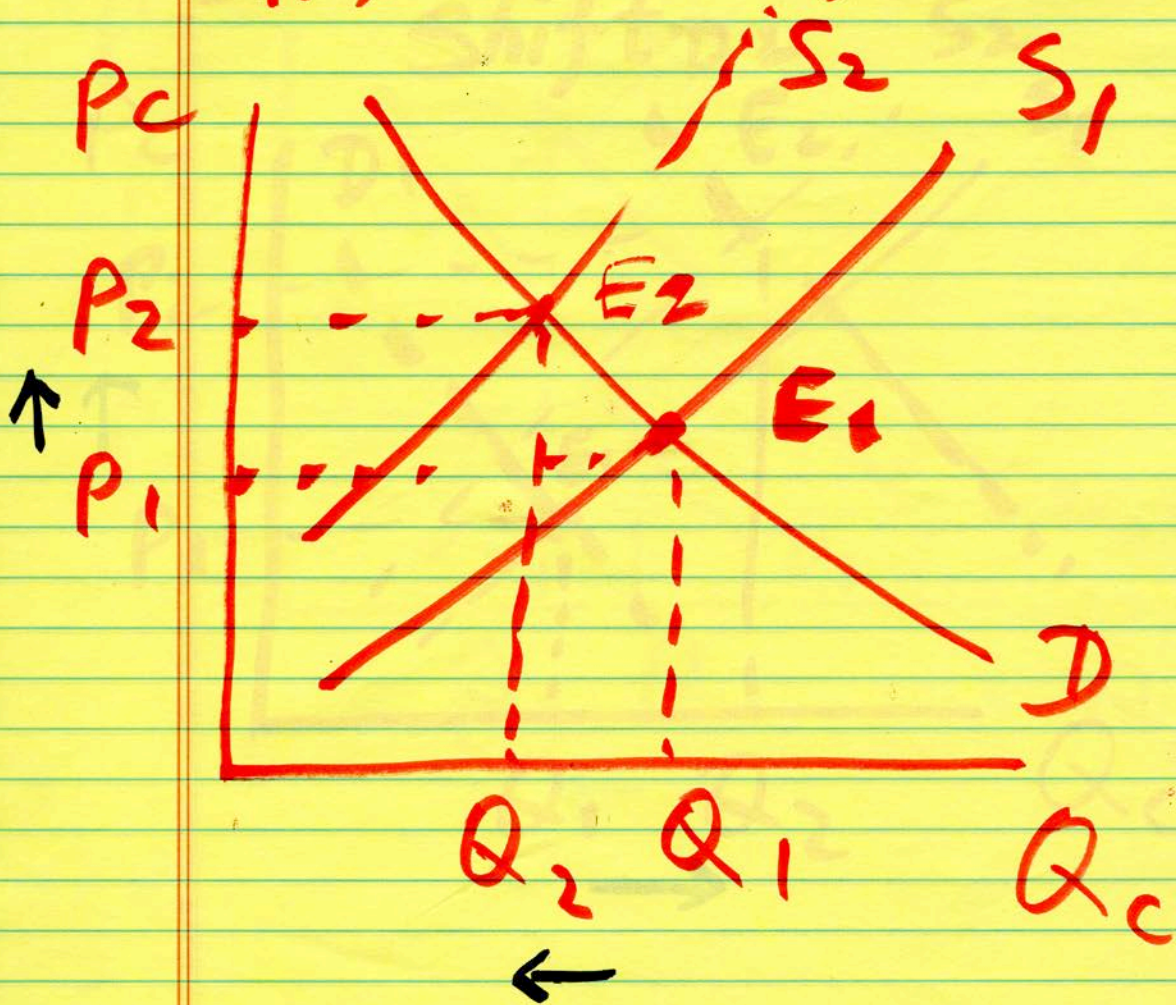




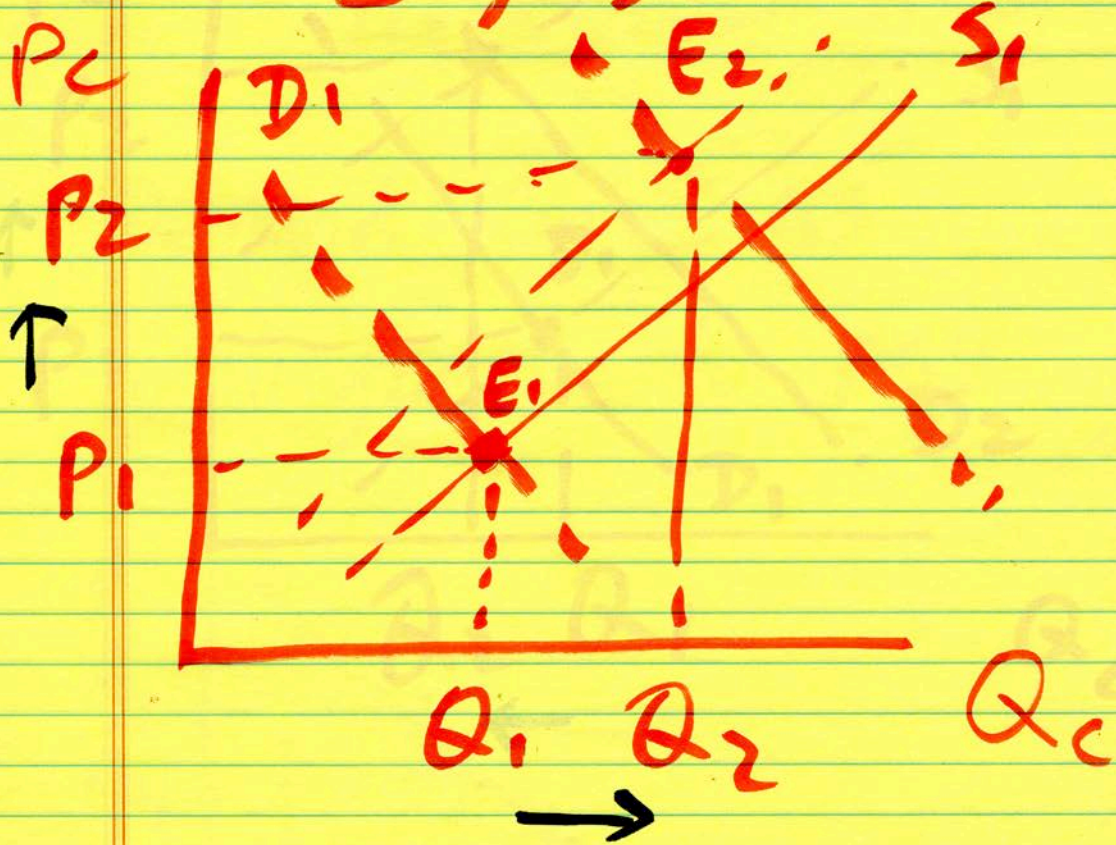
Demand Curve Shifts

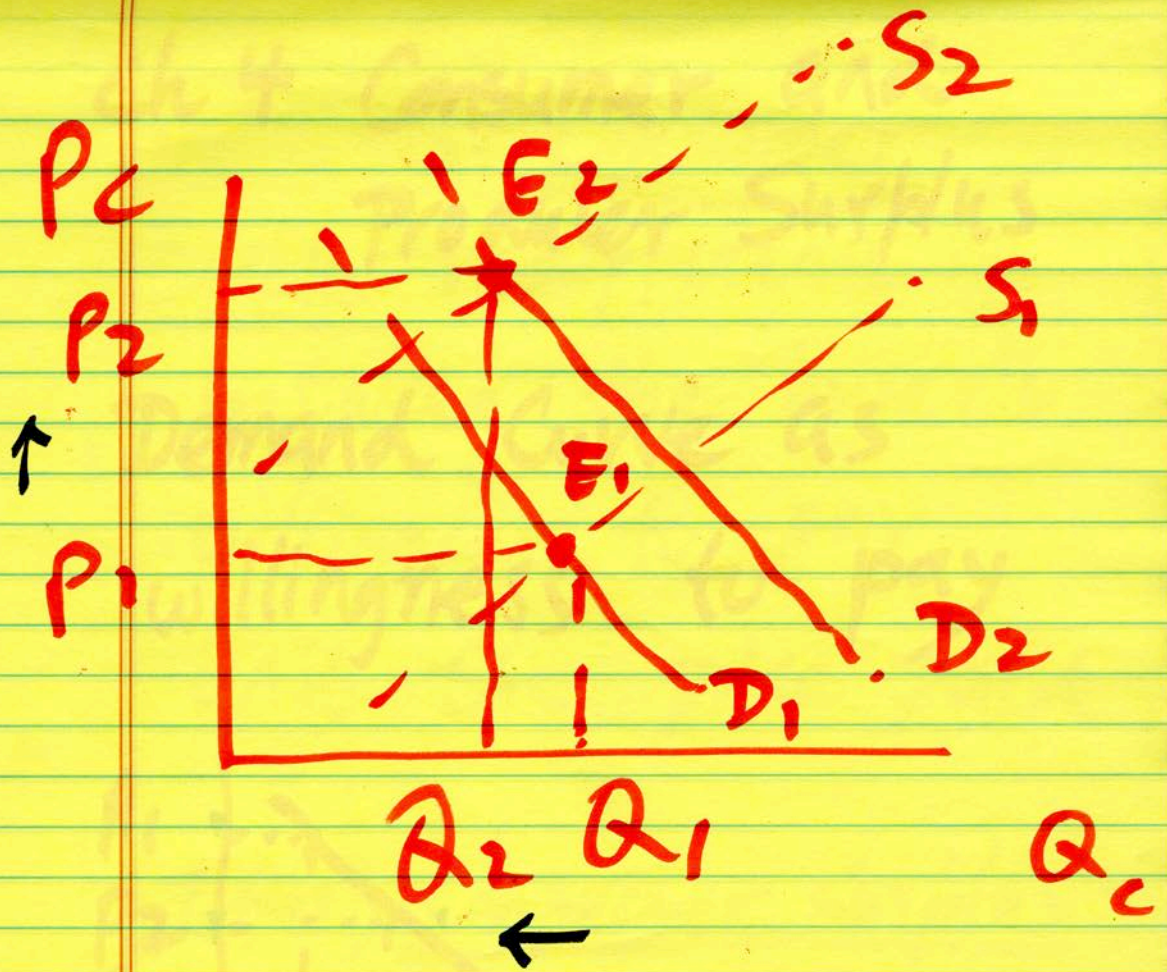


Supply Curve Shifts



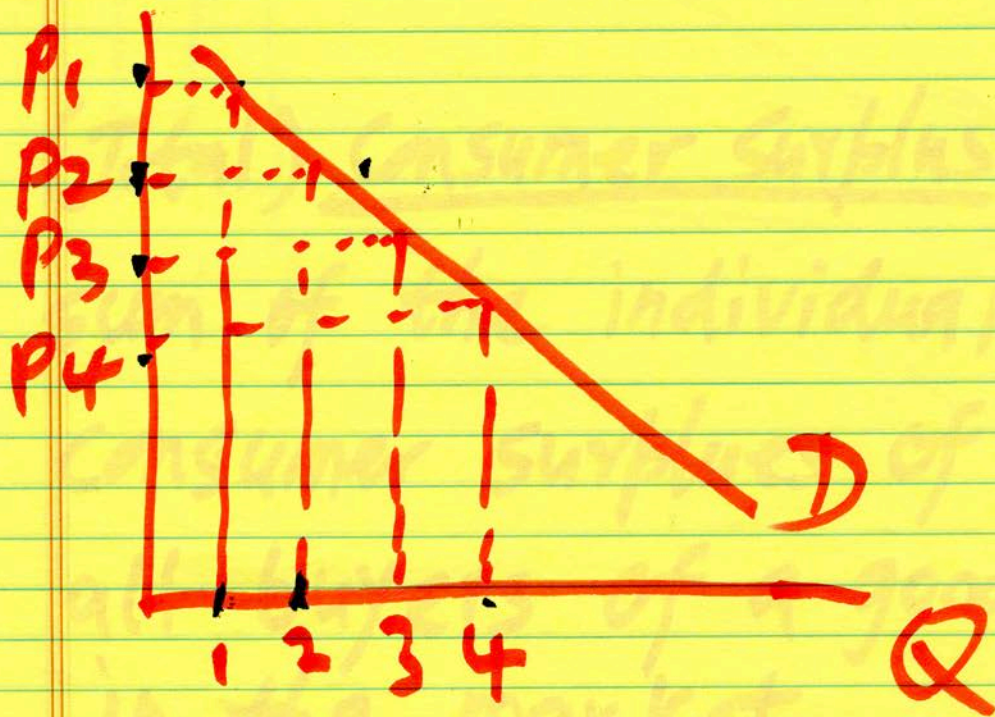
D and S curve Both
Shift D_2 S_2





Ch 4 Consumer and Producer Surplus

Demand Curve as
willingness to pay



individual consumer

surplus : difference

between the buyer's
willingness to pay

and the price paid

(Total) Consumer Surplus :

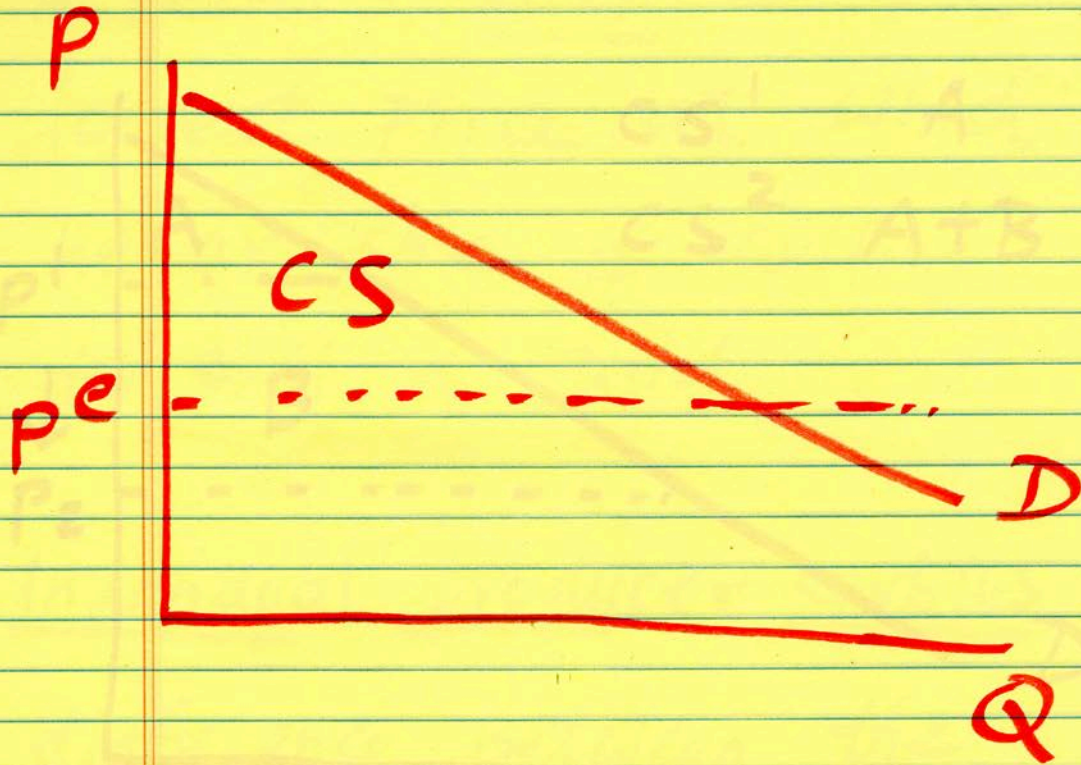
sum of the individual

consumer surpluses of

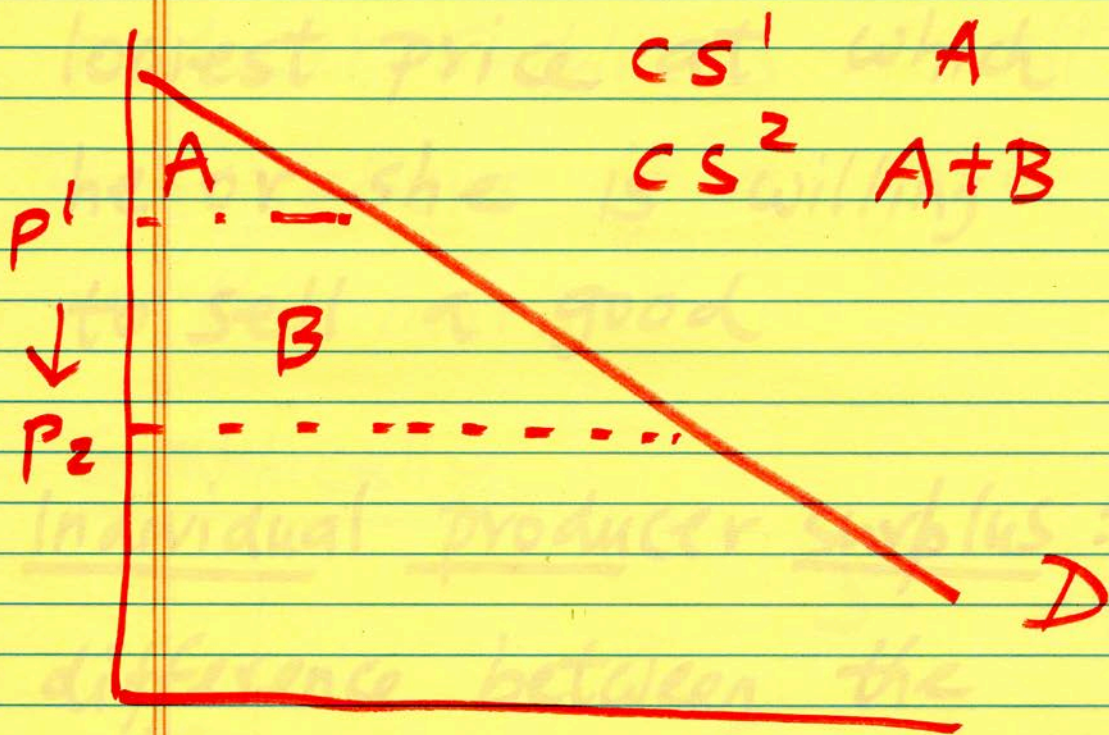
all buyers of a good

in the market

Graphically



$P \downarrow$ increases CS



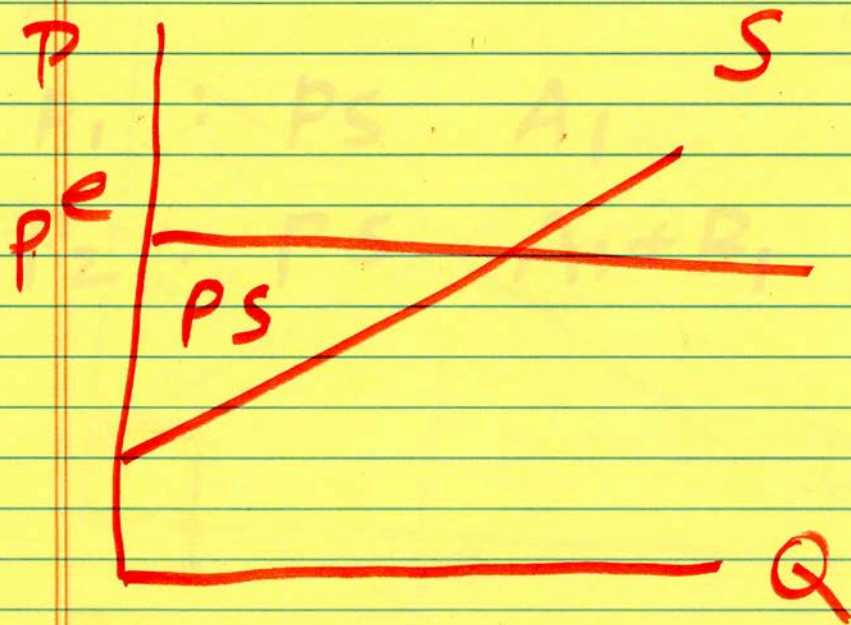
Producer Surplus

A seller's cost is the lowest price at which he or she is willing to sell a good

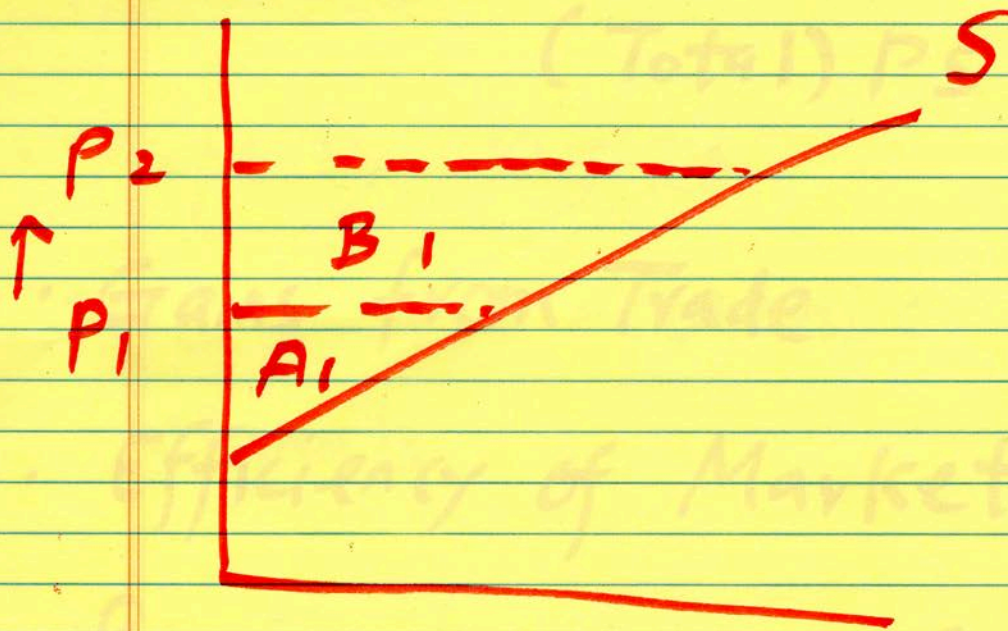
Graphically
Individual producer surplus :
difference between the price received and the seller's cost

(Total) Producer Surplus:
Sum of the individual
producer surpluses of all
the sellers of a good
in the market

Graphically



$P \uparrow$ Producer Surplus \uparrow

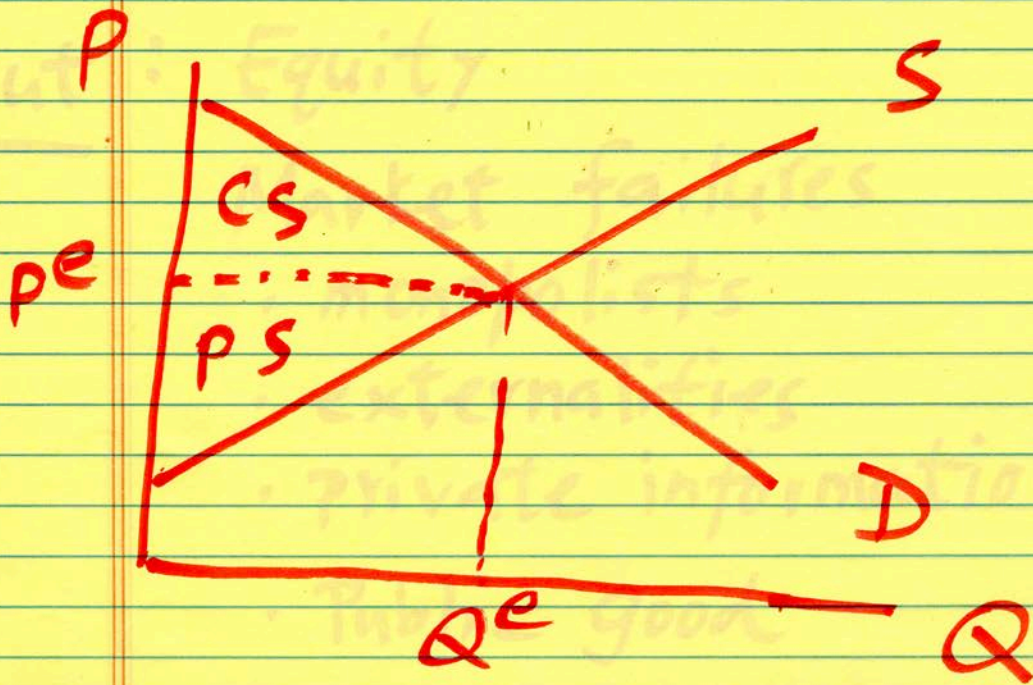


P_1 : PS A_1

P_2 : PS $A_1 + B_1$

$$\underline{\text{Total Surplus}} = (\text{Total}) CS + (\text{Total}) PS$$

- Gains from Trade
- Efficiency of Markets



Markets generally are efficient, because:

- Property rights
- Prices as economic signals

but: Equity

Market failures

- monopolists
- externalities
- private information
- Public good