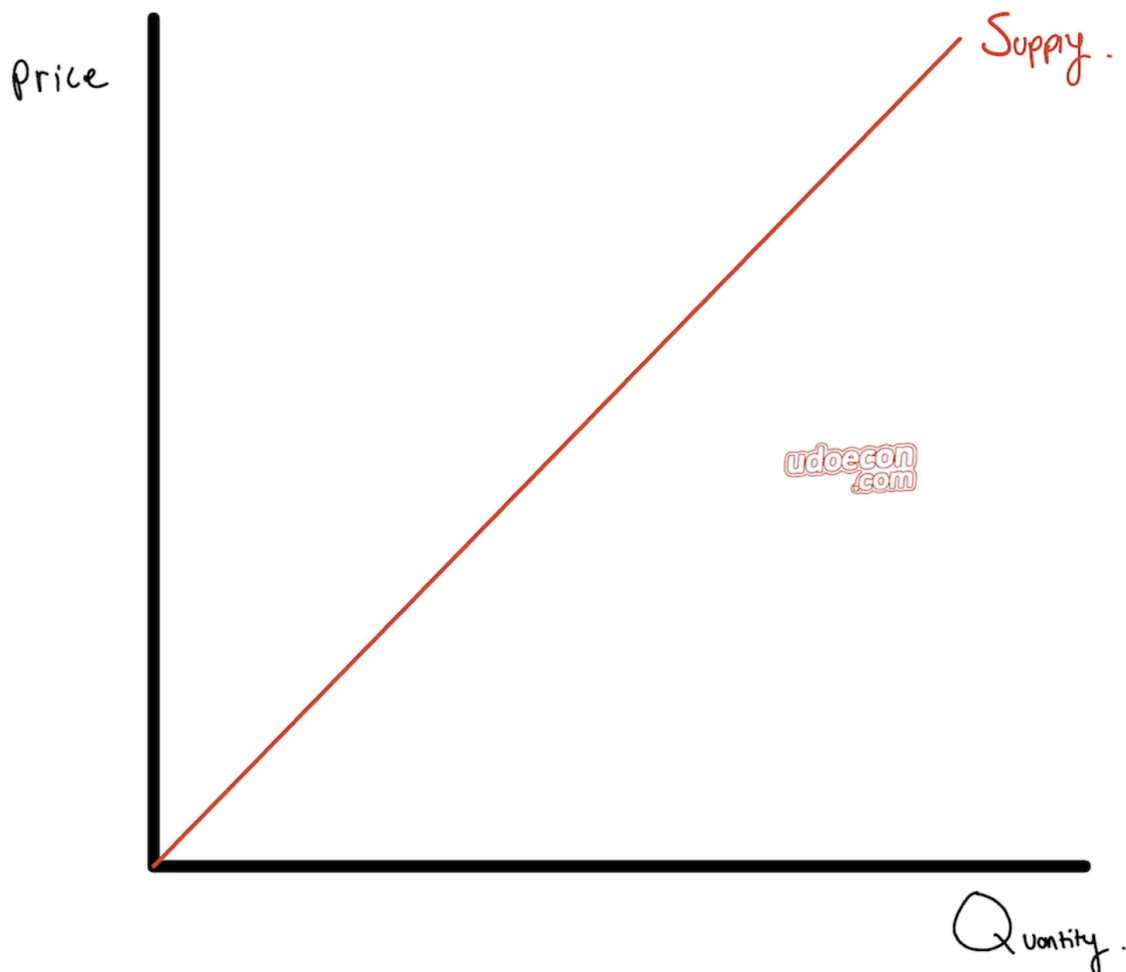


Supply: meaning and the supply curve

Supply is the quantity of a good/service that producers are **willing** and **able** to sell at a given price .

The law of supply states there is a positive relationship between price and quantity supplied. When price rises, firms tend to supply more; when price falls, firms tend to supply less. This is due to the classical economic assumption that all firms are profit maximisers , thus at higher outputs firms have more incentive to supply due to higher profit potential .

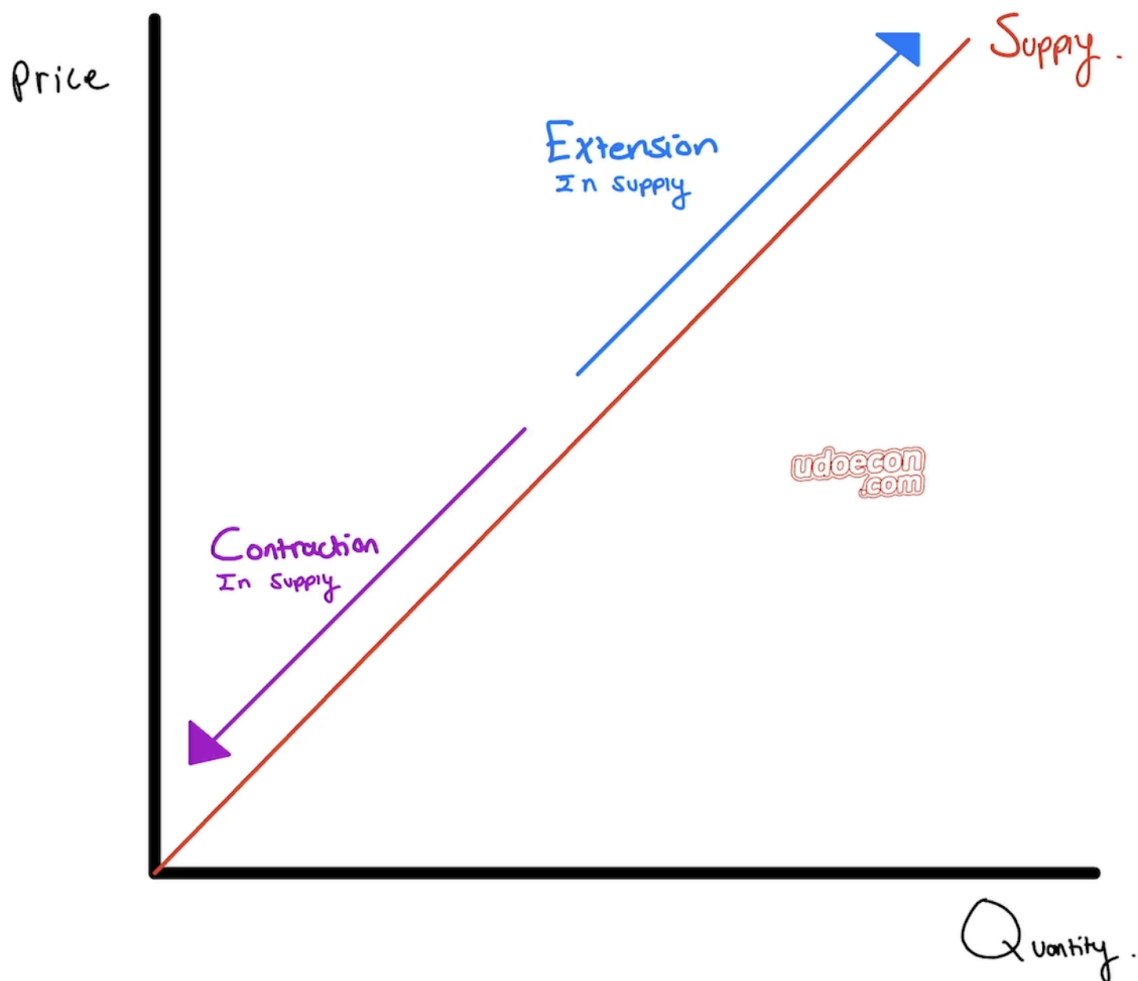


Movements along the supply curve

Extension and contraction

A movement along the supply curve happens when **price** is the **only** thing that changes .This changes quantity supplied, not supply.

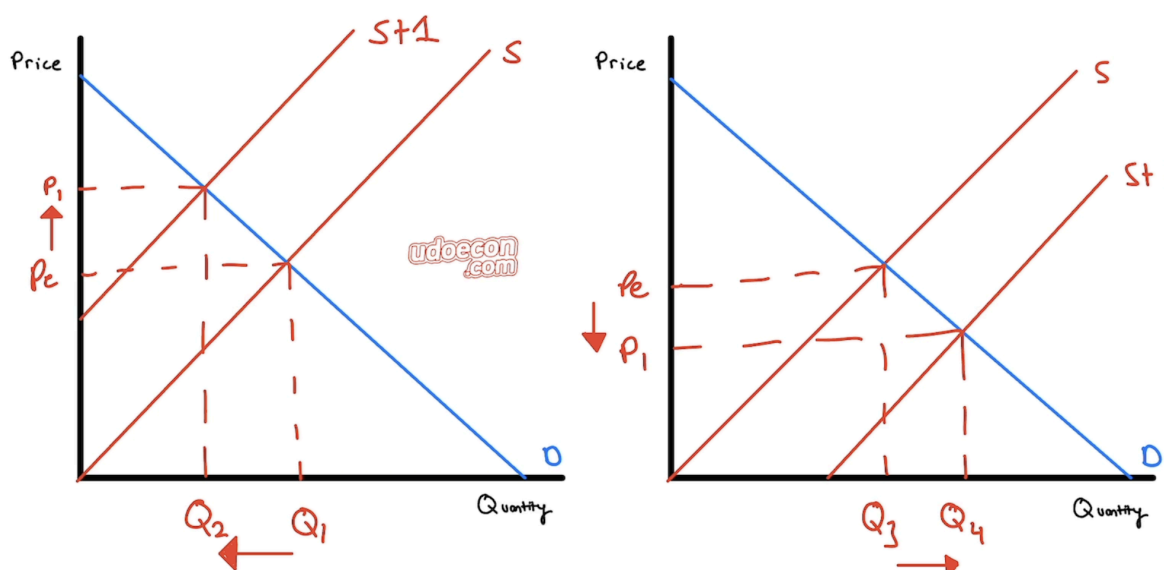
If price rises, firms move up the supply curve and there is an extension in quantity supplied. If price falls, firms move down the supply curve and there is a contraction in quantity supplied.



Shifts of the supply curve

The conditions of supply

If something other than the good's own price changes, the entire supply curve shifts. These non-price factors are called the **conditions** of supply. A shift means that at every price, firms are now willing to supply more or less than before. As we can see on the left, supply is shifting inwards from S to $S+1$, which therefore leads to an increase in the equilibrium price from P_e to P_1 and a decrease in quantity from Q_1 to Q_2 . On the right we can see supply shifting outwards from S to $S+1$, thus pushing down the equilibrium price from P_e to P_1 and quantity increasing from Q_3 to Q_4 .



Costs of production

If costs rise, such as higher wages or raw material prices (for example during the Russia-Ukraine war in 2022 the price of UK energy soared and the price of raw materials for firms went up over 18%!), production becomes less profitable. Firms supply less at each price, so supply shifts left.

If costs fall, production becomes more profitable. Firms supply more at each price, so supply shifts right.

Indirect taxes

Higher indirect taxes increase firms' costs, so supply shifts left . For example in 2023 the tax on Tobacco was increased - this means now about 80% of the total price of a packet of cigarettes is just tax !

Lower indirect taxes reduce firms' costs, so supply shifts right. For example in 2022 the uk cut fuel duty 5p per litre .

Subsidies

A subsidy reduces firms' effective costs of production, so supply shifts right. If a subsidy is reduced or removed, firms' costs rise and supply shifts left. For example in 2025 the UK government introduced a new electric car subsidy meaning drivers can get a discount of up to £3,750 on electric cars .

Technology

Improved technology can increase productivity and reduce unit costs, so supply shifts right. If technology becomes outdated or less efficient, costs rise and supply may shift left.

Number of firms in the market

If more firms enter an industry, total market supply increases and the supply curve shifts right. If firms leave the market, total supply falls and the supply curve shifts left.

Other non-price factors

Supply can shift due to weather and natural shocks, especially in agriculture and energy. It can also shift if the price of related goods in production changes, because firms may switch resources towards a more profitable alternative and reduce supply of the original product.

Some of my students would use the **PINTS WC** acronym to help them remember these non price factors that shift the supply curve .