

## Supply

Supply is the quantity that producers are willing to sell at a given price. For example, the potato grower may be willing to sell 1 million kg of potatoes if the price is \$0.75 per kg and basically more if the market price is \$0.90 per kg. The main determinants of supply will be the market price of the good and the cost of producing it

### 2-8. Supply curve

The general form of a supply curve is upward sloping, because of the positive relationship between price of goods and their quantities.

### 2-9. Special cases of a supply curve

There are many cases that supply curves do not slope upwards.

- \* A well known example is for the supply curve for labor: backward bending supply curve of labor. As a person's wage increases, they are willing to supply a greater number of hours working, but when the wage reaches an extremely high amount (say a wage of \$1,000,000 per hour), the amount of labor supplied actually decreases.
- \* Another example of a nontraditional supply curve is generally the supply curve for utility production companies. Because a large piece of their total costs are in the form of fixed costs, the marginal cost (supply curve) for these firms is often described as a constant

### 2-10. Aggregate supply

Aggregate supply is the total supply of goods and services by a national economy during a specific time period. There are at least two different versions of this concept.

- Sometimes the "S curve" in the "Keynesian cross" diagram is referred to as "aggregate supply." This curve often represents the total amount of production that corresponds to the total amount of income in a country during a specific time period. Because the sum of all income received corresponds to the sum of all production, this is drawn as a 45 degree line.
- In neo-Keynesian theory, an "aggregate supply and demand" diagram is drawn as upward-sloping in the short run, because the quantity of aggregate production supplied rises as the average price level rises.

## 2-11. theory of supply and demand

The theory of supply and demand describes how prices change as a result of a balance between product availability at each price (supply) and the desires of those with purchasing power at each price (demand).

## 2-12. supply and demand curves

- The slope of the demand curve (downward to the right) indicates that a greater quantity will be demanded when the price is lower.
- On the other hand, the slope of the supply curve (upward to the right) tells us that as the price goes up, producers are willing to produce more goods.
- The point where these curves intersect called the equilibrium point.
- P in this example, called the equilibrium price that equates supply with demand.

## 2-13. Market Equilibrium

When the supply and demand curves intersect, the market is in equilibrium. This is where the quantity demanded and quantity supplied are equal. The corresponding price is the equilibrium price or market-clearing price, the quantity is the equilibrium quantity.

Questions:

### 1. True or false tests:-

- Demand is the quantity of good that consumers willing to purchase.
- The general form of a demand curve is that it is downward sloping.
- A Giffen good demand curve has an downward slope.
- Increasing income levels increases shifting the demand curve to the right.
- Supply is the quantity that producers are willing to sell at a given price.

### 2. Give The aggregate demand equation?

### 3. What The theory of supply and demand described?

### 4. Translate the fallowing paragraph:-

## Variable and constant

We will not be able to determine the separate influence of each of the following variables(Consumer incomes, Population) if we try to consider what happens when everything changes at once. Instead, we consider the influence of the variables one at a time.

To do this, Consumer tastes and preferences, Prices and availability of related goods. we hold all but one of them constant. Then we let that one selected variable change and study how it affects quantity demanded. We can do the same for each of the other variables in turn and in this way we can come to understand the importance of each.