

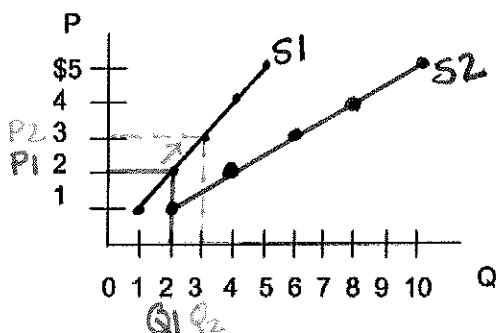
## Supply Practice

### I. Supply schedules & graphs

- A. Use the following schedule to graph Acme Company's willingness and ability to supply widgets at various prices (label the curve S1)

Supply Schedule

Price	Quantity (in thousands)
\$5	5
\$4	4
\$3	3
\$2	2
\$1	1



- B. Show on this graph what happens when the market price changes from \$2 to \$3. Is this change in supply or a change in quantity supplied?

$\Delta Q_S$  - it's a change in price.

- C. Now suppose that Acme Co. has acquired a new machine which reduces their labor costs. Because their profit potential is now greater they are now willing to provide twice as many widgets at each price. Complete this new supply schedule below and then graph this new curve with a dashed line (---) on the graph above and label it S2.

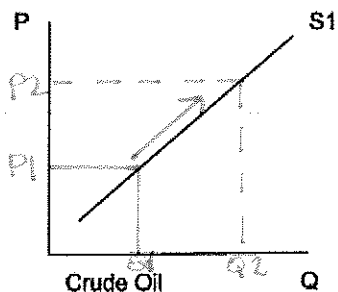
New Supply Schedule

Price	Quantity (in thousands)
\$5	10
\$4	8
\$3	6
\$2	4
\$1	2

\* This is a change in input costs  
 \* NO price change but they can make more money per unit due to decrease in the cost to make widgets

- II. **Practice:** Read the description for each of the following graphs. Determine if a change in supply ( $\Delta S$ ) or a change in quantity supplied ( $\Delta Q_S$ ) is described. Remember, the only thing that can cause a change in the quantity supplied ( $\Delta Q_S$ ) is a change in the price of that good. Give the reason for each change. Then sketch the result on the curve. Label new supply curves S2.

1.

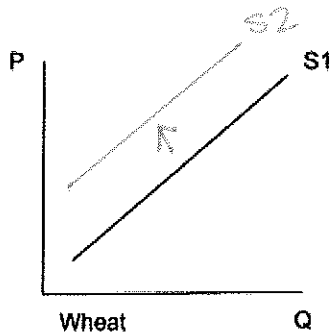


The price of crude oil increases 50%.

Will this cause  $\Delta S$  or  $\Delta Q_S$ ?  $\Delta Q_S$

Reason: Price

2.



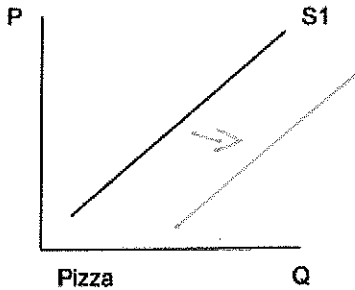
A severe drought damages over 60% of the nation's wheat.

Will this cause  $\Delta S$  or  $\Delta QS$ ?  $\Delta S$

Reason: physical changes

Shift left due to decrease in supply

3.



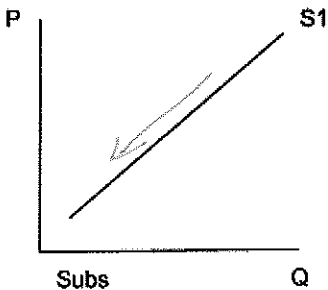
The producer of pizza is able to get tomatoes for half the regular price. What will be the impact on pizza?

$\Delta S$  or  $\Delta QS$ ?  $\Delta S$

Reason: Change in input cost

\* Cost of tomatoes  $\downarrow$ , which cause a decrease in the cost to produce pizza  
 • supply more  $\rightarrow$  increased profit.

4.

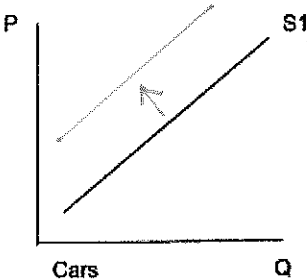


A school district has just announced that because of budget cuts they must decrease the salary of substitute teachers from \$85 per day to \$75 a day. What happens to the number of people willing to substitute teach?

$\Delta S$  or  $\Delta QS$ ?  $\Delta QS$

Reason: Prices

5.



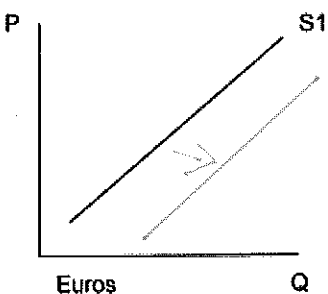
If the average cost of labor increases from \$40/hr to \$50/hr in the auto industry, what will be the impact on the supply of cars?

$\Delta S$  or  $\Delta QS$ ?  $\Delta S$

Reason: Change in input cost

\* Cars will cost more to produce due to increased labor costs which will cut in to profit = less supply

6.



Currency traders holding Euros think that the US\$ price of the Euro will drop in the near future (the Euro will be worth fewer dollars). How will this impact the supply of Euros?

$\Delta S$  or  $\Delta QS$ ?  $\Delta S$

Reason: Expectations of lower prices in the future.

\* increase supply now so they can sell at the higher rate prior to prices changing.