

## Economic Analysis of Supply

### II

Which Way Does It Matter?

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### Which Way does it Matter?

- Direction of Relationship

– Driver Up → Supply Up  
 – Driver Down → Supply Down

} Direct/Positive

– Driver Up → Supply Down  
 – Driver Down → Supply Up

} Inverse/Negative

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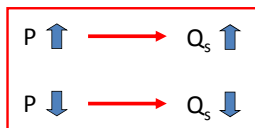
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### Price

- Which Way does it Matter?

- "Same Way"
- Positive or Direct Relation (+)
- "Law of Supply"




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## Expectations about Future Prices

- Which Way does it Matter?
  - Expectations of **Suppliers**
  - Inverse Relation (-)
  - Supply Now vs. Expected Price Later
- Current Supply vs. Future Supply
  - Hold off, Wait for the Increase
  - Sell Now, while the Price is Good




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## Price of Related Goods

- Which Way does it Matter?
  - Depends!
  - Goods Related Different Ways
- Substitutes: Inverse Relation (-)
  - In Production not Consumption!



- Complements: Direct Relation (+)
  - In Production not Consumption!




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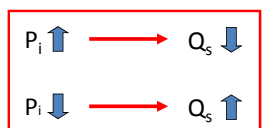
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## Price of Inputs

- Which Way does it Matter?
  - Inverse Relation (-)
  - Costs of Production




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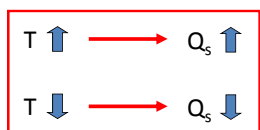
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## Technology

- Which Way does it Matter?
  - Direct Relation (+)
  - Usually “Bad Technology” Gets Discarded
  - (Although Short Term Problems Can Occur)




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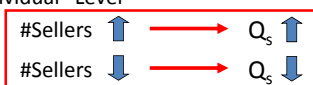
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## Number of Sellers

- Which Way does it Matter?
  - Direct Relation (+)
  - More Sellers Means More Supply
- Relevant for Aggregated Supply
  - Relevant at “Market” Level
  - Not the “Individual” Level




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## Wrap Up:

- Supply Functions: What?, Which Way?, How Much?
- What Matters & Which Way It Goes:
  - Price (+)
  - Expectations about Future Prices (-)
  - Price of Related Goods (+/-)
  - Price of Inputs (-)
  - Technology (+)
  - Number of Sellers (+)

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