A change in the price of the good itself leads to a movement along the existing supply curve, since the price of the good is on one of the axes. This is shown in Figure 2.13, where a fall in the price of soccer boots from p to p_1 leads to a fall in the quantity supplied from q to q_1.

A change in any of the other determinants of supply will always lead to a shift of the supply curve to either the left or the right. For example, as shown in Figure 2.14, an increase in the cost of the rent of the land occupied by a large car firm will have the effect of shifting the supply curve to the left from S to S_1. Thus less will be supplied at each price and at the existing price of p, supply will fall from q to q_1.

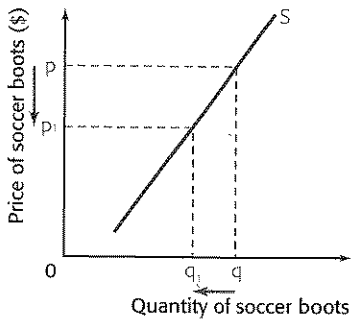

Figure 2.13 The supply of soccer boots

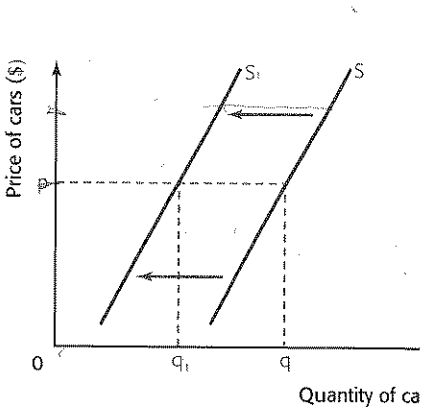

Figure 2.14 The supply of cars

Student workpoint 2.3

Be a thinker—make some reasoned decisions

Using fully labelled diagrams, illustrate what may be the outcome in each of the questions given below (remember to use a ruler and include accurate labels).

1. What would happen to the supply of bicycles if there were a large increase in the tax on bicycles?
2. What would happen to the supply of foreign holidays if there were a fall in the price of foreign holidays?
3. What would happen to the supply of DVDs if there were a significant increase in the price of the components used to make DVDs?
4. What would happen to the supply of cars if the government were to subsidise car production in order to protect employment?
5. What would happen to the supply of white bread if a firm were to discover that there has been a large increase in the demand for brown bread, which they could also produce?
6. What would happen to the supply of a certain brand of bottled water if there were an improvement in the technology used to produce it?
7. What would happen to the supply of carrots if the farmer decided to preserve the environment by farming in a more traditional manner, instead of making more profits?

HL: Linear supply functions

We can show the relationship between the supply of a product and individual determinants of supply by using an equation. This equation is known as a supply function. We are going to concentrate on a supply function that shows the relationship between market supply of a product and the price of the product. We could generate equations to show the relationships between market supply and all, or individual, determinants of supply other than price, but that is beyond the scope of the IB course.

A simple supply function relating the quantity supplied of a product to the price of the product is usually shown in the form:

$$Q_S = c + dP$$

Where Q_S is quantity supplied, P is price, 'c' is the quantity that would be supplied if the price was zero and 'd' sets the slope of the curve.