Module 3 - Supply (Ch. 3)

Key Concepts:

- **Law of Supply** upward sloping supply curve (increase in price leads to increase in quantity)
- **Law of Diminishing Marginal Product** each additional input produces less additional output.
- **Market supply** = horizontal summation of all individual supply curves.
- **Quantity supplied**: movement *along* a supply curve caused by a change in price.
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- **Supply**: the entire curve.

Supply Shifters:

Examples:

1. **Input prices** – higher wages costs → supply shifts *out*.
2. **Technology** – better technology → supply shifts *back*.
3. **Prices of other goods in production**
   - *Substitutes* in production (e.g. corn vs. soybeans): if the price of soy rises, supply of corn falls.
   - *Complements* in production: reverse logic
4. **Expectations** – if producers expect higher future prices, they may reduce current supply.
5. **Number of producers** – more sellers in the market increase supply.

Module 4 - Market Equilibrium (Ch. 4)

- **Surplus:** price above equilibrium → Market forces push prices down.
- **Shortage:** price below equilibrium → Market forces push prices up.
- “supply equals demand” is wrong→ correct: *at equilibrium, quantity supplied equals quantity demanded*.

  Demand Shifters ≠ Supply Shifters

- demand does **not** shift supply, and supply does **not** shift demand. Each shifts due to its own determinants.

Math: Set $Q^D = Q^S$ and solve for equilibrium price P and quantity Q.