Exam Papers Practice

The Determinants of the Supply of Goods and Services

AQA A Level Economics Revision Notes

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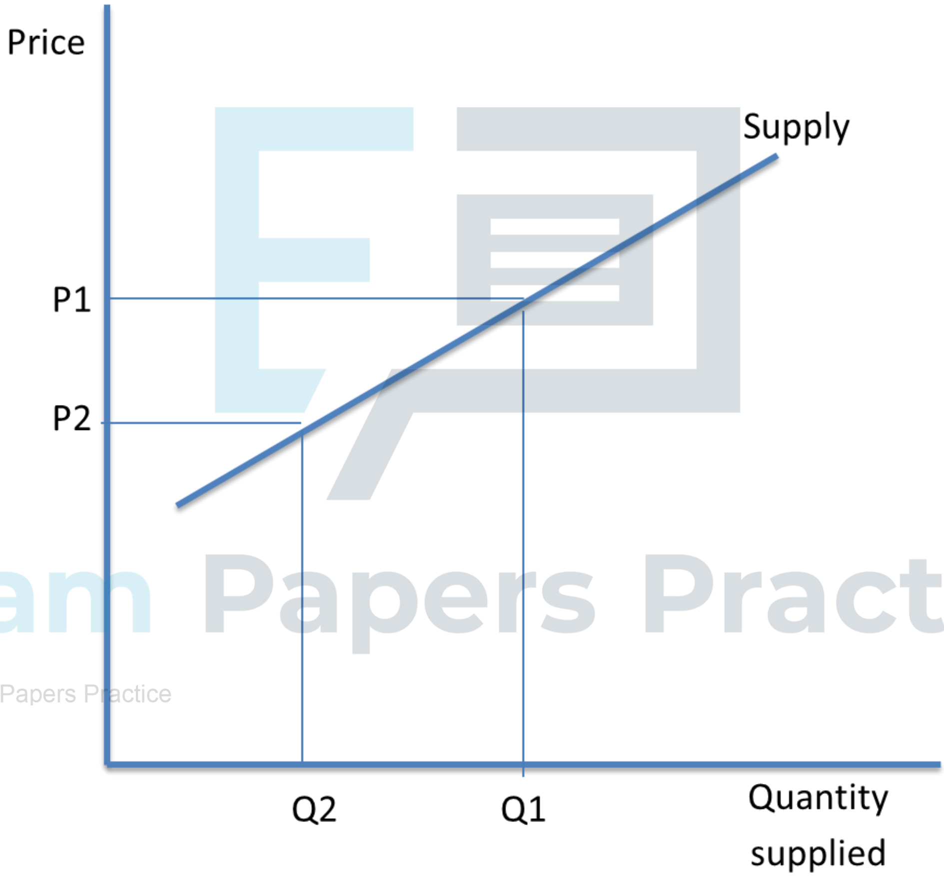
Supply is the **quantity of a good or service that a producer is able and willing to supply at a given price during a given period of time.**

Supply curves are upward sloping because:

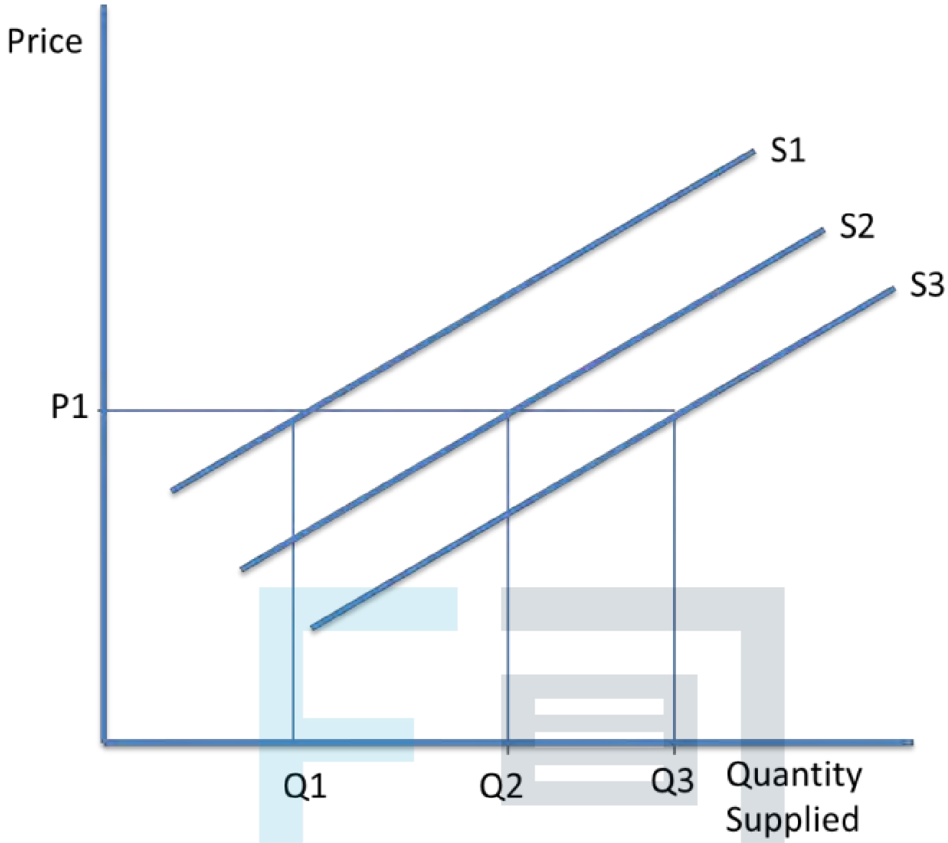
- If price increases, it is more profitable for firms to supply the good, so supply increases.
- High prices encourage new firms to enter the market, because it seems profitable, so supply increases.
- With larger outputs, firm's costs increase, so they need to charge a higher price to cover the costs.

Movements along the supply curve:



At price P1, a quantity of Q1 is supplied. At the lower price of P2, Q2 is supplied. This is a **contraction** of supply. If price increases from P2 to P1, QS increases from Q2 to Q1. This is an **expansion** of supply. Only changes in price will cause these movements along the supply curve. This is based on the theory of the **profit motive.** Firms are driven by the desire to make large profits.

Shifting the supply curve:



- Price changes do not shift the supply curve. A shift from S1 to S2 is an outward shift in supply, so a larger quantity of goods is supplied at the market price of P1. A shift from S3 to S1 is an inward shift in supply. More goods are supplied at the market price of P1.
- The factors that shift the supply curve can be remembered using the mnemonic PINTSWC:
  - **P- Productivity.** Higher productivity causes an outward shift in supply, because average costs for the firm fall.
  - **I- Indirect taxes.** Inward shift in supply.
  - **N- Number of firms.** The more firms there are, the larger the supply.
  - **T- Technology.** More advanced the technology causes an outward shift in supply.
  - **S- Subsidies.** Subsidies cause an outward shift in supply.
  - **W- Weather.** This is particularly for agricultural produce. Favourable conditions will increase supply.
  - **C- Costs of production.** If costs of production fall, the firm can afford to supply more. If costs rise, such as with higher wages, there will be an inward shift in supply.
  - Also, depreciation in the exchange rate will increase the cost of imports, which will cause an inward shift in supply.