

## Webnote 201

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# 2.2 HL Positively sloped supply

Supply of a firm represents the quantities of a good/ service that a firm is willing and able to produce at a range of different prices over a particular period of time, ceteris paribus

2.2 Positively Sloped Supply

# Supply function

Supply Function  
 $Q_s \text{ of } X = f \text{ of } P_x, P_s, P_f, G, \text{Technology, Weather, etc}$

$P_s$

$P_f$

$G$

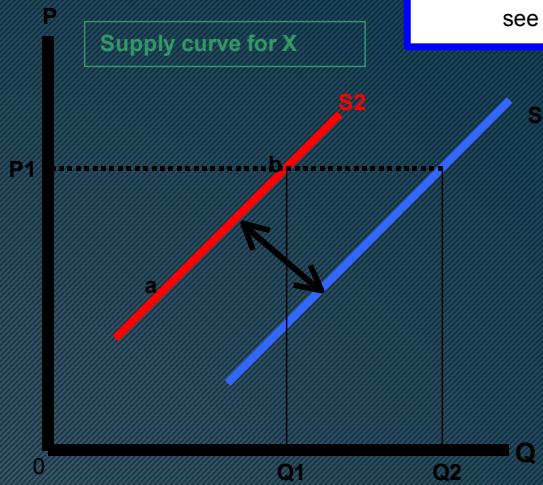
TECH

Weather  
ETC

**1. Movement in supply**  
is a movement along the curve  
and is only caused by a price  
change see ab below

PRICE OF X CHANGES

**2. Shift in supply**  
results in a new supply curve  
see S1 S2



2.2 Positively Sloped Supply



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Idea

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What factors cause supply to be positively sloped?

Key words:

- inefficiency

1. Law of diminishing marginal returns
2. Increasing MC (marginal costs)

Outcome: Inefficiency in short run causes higher costs for firms to rise and therefore prices to rise

2.2 Positively Sloped Supply

# Diminishing marginal returns

## Key words:

- Diminishing marginal returns
- Marginal product
- Inefficiency
- Increasing marginal costs
- Connect MC with diminishing returns
- MC and supply curve

Short run period (1 factor fixed)

























Labour (variable factor)	Capital (fixed factor of production)	Total Product (Toy trucks)	Marginal product (toy trucks)
0	3 units of capital	0	0
1	3	1	1
2	3	3	2
3	3	6	3
4	3	8	2
5	3	9	1
6	3	8	-1

(In)efficiency

Where does inefficiency occur?

Marginal analysis shows that after the 3<sup>rd</sup> unit of labour is employed then marginal product (output) begins to fall.

**Short-run Production in a Toy Truck Factory**

Quantity of Labor	Quantity of Capital	Total Product (TP)	Marginal Product (MP)
			
			
			
			
			
			



Marginal analysis shows exactly when the firm begins to become inefficient

Marginal product (toy trucks)
0
1
2
3
2
1
-1

