

Homework Problem #10

Supply Curves, Moves Along Supply Curves, And Shifts in Supply Curves

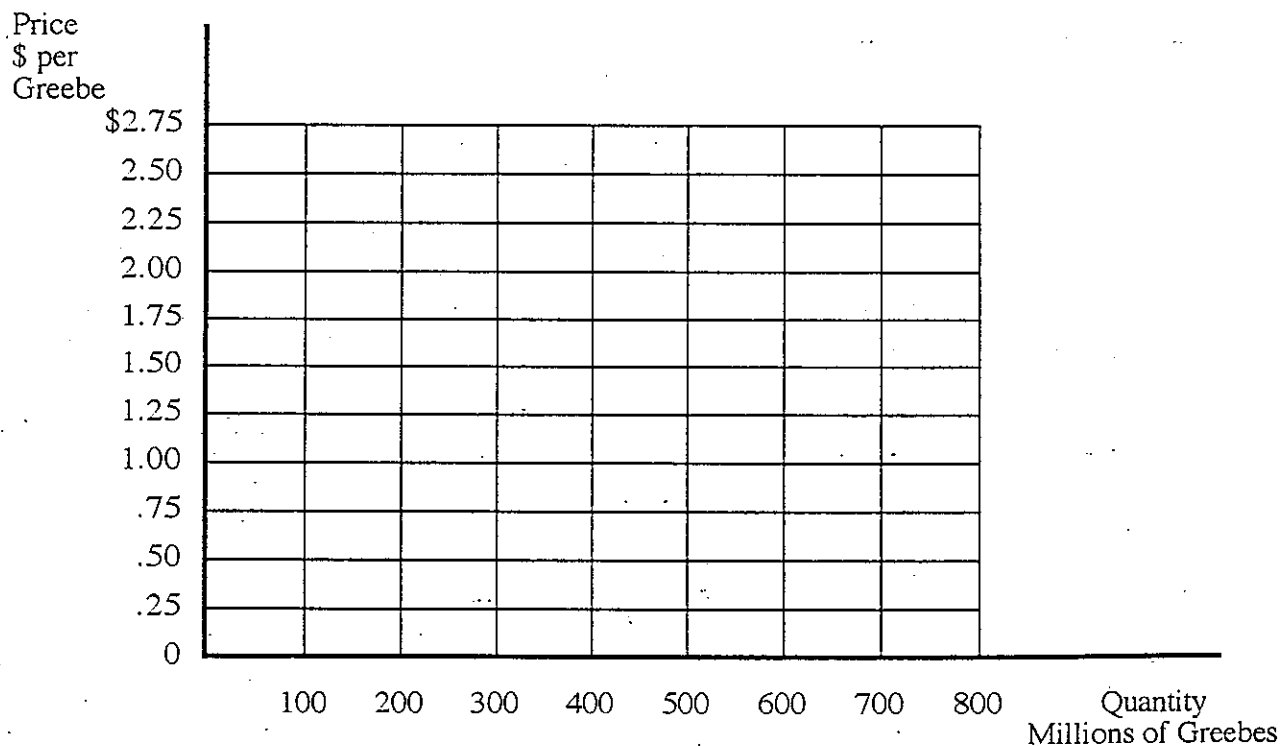
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Long Run competitive market supply curves usually slope "up to the right" but not always (see HW #20). If each firm in the market could expand its output with a constant marginal cost, or if new firms could enter the market with exactly the same cost as the firms already in the market, the long run supply curve would be a "perfectly elastic" horizontal line. But, this is not likely in many cases. Typically, firms in a competitive market experience increases in their marginal cost as output expands beyond a certain point, and firms entering a competitive market usually have higher cost than the firms already in the market.

In this homework problem, and those that follow, we will assume that the long run supply curve for greebes is "upward sloping." Study the data in the table below, and plot the supply for greebes on the axes provided. Label the supply curve "S", and answer the questions on the following pages.

SUPPLY OF GREEBES

Price (\$ per Greebe)	Quantity Supplied (millions of Greebes)	Quantity (millions of Greebes)	Supply Price (Marginal Cost) (\$ per Greebe)
\$ 1.75	600	200	\$.75
1.50	500	300	1.00
1.25	400	400	1.25
1.00	300	500	1.50
.75	200	600	1.75



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Now, to take another example, let's suppose that there is a dramatic decrease in the price of several of the raw materials used in making greebes. This change in the *ceteris paribus* conditions underlying the original supply of greebes will result in a decrease in marginal cost and an increase in supply, and we would have a new set of data such as that shown in the following table. Study the data in the new table, and plot this supply of greebes on the axes on page 63. Label the new supply curve "S₂" and answer the questions below.

INCREASE IN THE SUPPLY OF GREEBES

Price (\$ per Greebe)	Quantity Supplied (millions of Greebes)	Quantity (millions of Greebes)	Supply Price (Marginal Cost) (\$ per Greebe)
\$ 1.50	600	200	\$.50
1.25	500	300	.75
1.00	400	400	1.00
.75	300	500	1.25
.50	200	600	1.50

Comparing the new supply curve (S₂) with the old supply curve (S), we can say that an increase in the supply of greebes results in a shift of the supply curve to the (right/left). Such a shift indicates that at each of the possible prices shown, suppliers are now willing to offer a (smaller/larger) quantity, and at each of the possible quantities shown, suppliers require a (higher/lower) minimum price.

Now, the dog work over, see if you have the point by circling what you think is the one best alternative in each of the following multiple choice questions.

- Other things constant, which of the following would **NOT** cause a change in the long run supply of beef.
 - A decrease in the price of beef.
 - A decrease in the price of cattle feed.
 - An increase in the price of cattle feed.
 - An increase in the cost of transporting cattle to market.
- "Falling oil prices have caused a sharp decrease in the supply of oil." Speaking precisely, and using terms as they are defined by economists, this quotation is:
 - correct, a decrease in price always causes a decrease in "supply".
 - incorrect, a decrease in price always causes an increase in "supply", not a decrease in "supply".
 - incorrect, a decrease in price causes an increase in the "quantity supplied", not a decrease in "supply".
 - incorrect, a decrease in price causes a decrease in "the quantity supplied", not a decrease in "supply".

OVER FOR QUESTION #3, WHICH IS ON THE NEXT PAGE.