Exercise walk-through

Supply ▪ 2.3

eXercise

You must be able to

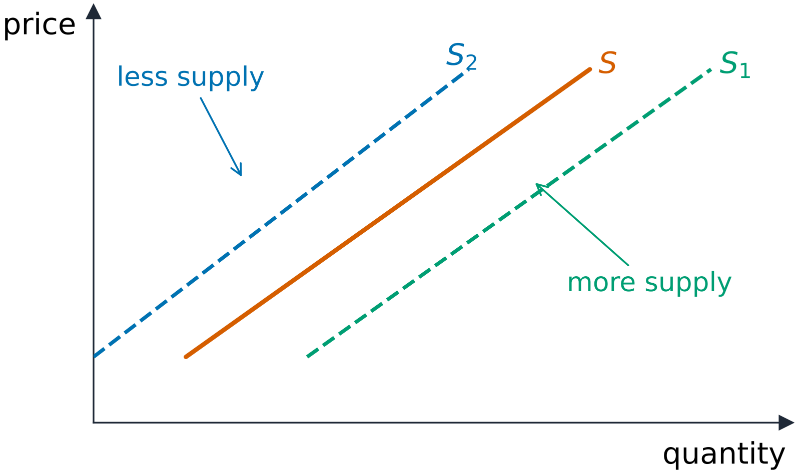
- state the law of supply and explain the upward curve
- distinguish a movement along from a shift of the supply curve
- explain the conditions that shift supply

Method — The supply curve

- **Law of supply:** price up $\rightarrow$ quantity supplied up (a **direct relationship 正向关系**) — firms earn more, so supply more.
- **Conditions of supply** (shift the curve): **costs of production 生产成本**, **technology 技术**, a **tax 税收** or **subsidy 补贴**, weather, number of firms.

Answer shapes: an **Analyse [up to 6]** answer may use a supply diagram; **Discuss [8]** adds a judgement (Ev).

Method — The supply curve



Practice 2.1 ▪ 2 marks

State the *law of supply*.

Solution 2.1

Worked steps

when the price of a good rises, the quantity supplied rises, and when the price falls, the quantity supplied falls (2 for a clear statement; 1 for a partial idea).

Practice 2.2 ▪ 2 marks

State two conditions that shift the supply curve.

Solution 2.2

Method: The supply curve

Worked steps

any two of: costs of production; technology; taxes/subsidies; weather; number of firms $(1 + 1)$.

Practice 2.3 ▪ 1 mark

State the effect on supply of a rise in the costs of production.

Solution 2.3

Method: The supply curve

Worked steps

supply falls (the curve shifts left) (1).

Exam-style 3.1 ▪ 1 mark

A government **subsidy** to producers will shift the supply curve:

A left, because costs rise

B right, because costs fall

C left, because demand falls

D there is no effect on supply

Solution 3.1

Method: The supply curve

A left, because costs rise

B right, because costs fall ✓

C left, because demand falls

D there is no effect on supply

Worked steps

B. A subsidy lowers costs, shifting supply right.

Exam-style 3.2 ▪ 4 marks

Using a supply diagram, explain how a rise in the cost of raw materials affects supply.

Solution 3.2

Method: The supply curve

Worked steps

[4] K 1 + **diagram up to 2** (supply shifts left $S \rightarrow S_1$) + An 1 — dearer raw materials raise firms' costs → they supply less at every price → the supply curve shifts left.

Exam-style 3.3 ▪ 6 marks

Analyse how an improvement in technology would affect the supply of a good.

Solution 3.3

Method: The supply curve

Worked steps

[6] K/App/An — technology is a condition of supply $\rightarrow$ better technology lowers firms' costs of production $\rightarrow$ they can make more for the same cost $\rightarrow$ at every price they supply more $\rightarrow$ the supply curve shifts right $\rightarrow$ supply rises (and, with demand unchanged, the price falls and quantity rises).