Name ______________________ Date ______________ Class ______________

Study Guide

Chapter 21, Section 1

For use with textbook pages 462–465

What Is Supply?

KEY TERMS

supply the various quantities of a good or service that producers are willing to sell at all possible market prices *(page 462)*

law of supply the principle that suppliers will normally offer more for sale at higher prices and less at lower prices *(page 463)*

supply schedule a numerical chart that illustrates the law of supply *(page 463)*

supply curve a graph that shows the amount of a product that would be supplied at all possible prices in the market *(page 463)*

profit the money a business receives for its products or services over and above its costs *(page 464)*

market supply the combination of supply schedules of all the businesses that provide the same good or service *(page 464)*

DRAWING FROM EXPERIENCE

What is a profit? How do businesses make a profit? Have you ever made a profit on something? How did you do so?

In this section, you will learn about the law of supply. You will also compare a supply schedule with a supply curve.

ORGANIZING YOUR THOUGHTS

Use the diagram to help you take notes. Supply and prices are related. Indicate how they are related in the diagram.

When prices go up, → **1. supply** ______________ **.**

When prices go down, → **2. supply** ______________ **.**

Name ______________________ Date ______________ Class ______________

READ TO LEARN

• An Introduction to Supply *(page 462)*

One of the major forces that helps to set prices in the economy is demand. Another major force is **supply.** This refers to the various quantities of a good or service that producers are willing to sell at all possible market prices. Supply is the opposite of demand. Buyers demand different quantities of a good depending on its price. Suppliers offer different quantities of a good depending on the price that buyers are willing to pay.

The law of demand states that as the price of a good rises, the quantity demanded goes down. The **law of supply** states that as the price rises for a good, the quantity supplied rises. The higher a price of a good, the more willing the producer is to produce more. The producer expects to make a higher profit because of the higher price.

The law of supply can be shown on a numerical chart called the **supply schedule.** The chart shows that as the price of a good rises, so does the quantity supplied. The law of supply can also be shown on a **supply curve.** This is a line graph that shows the amount of a product that would be supplied at all possible prices in the market. The graph is drawn with prices on the vertical axis and quantities on the horizontal axis. Unlike the demand curve, the supply curve slopes upward. This shows that suppliers offer more goods and services at a higher price and fewer at a lower price.

Businesses want to sell their goods at higher prices because they want to cover costs and earn profits. **Profit** is the money a business receives for its products and services over and above its costs. For example, if it costs a company $40 to make a video game and it sells the game for $40, the company earns no profit on the sale. The company wants to make money, so it has to sell the game for more than $40. The additional money is the company's profit. Earning a profit is the main goal for business owners.

3. Describe a similarity and a difference between a demand curve and a supply curve.

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Name ______________________ Date ______________ Class ______________

Study Guide

Chapter 21, Section 1 (continued)

• Graphing Market Supply *(page 464)*

When you combine the supply schedules of all the businesses that provide the same good or service, the total is called the **market supply.** The market supply curve has the same upward slope as the individual supply curve. This shows that all the producers of a certain good would prefer to sell more goods at higher prices and fewer goods at lower prices.

The price has the greatest effect on the quantity supplied of any product.

4. How is a market supply curve similar to and different from an individual supply curve?

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