SECTION 3.4 SUPPLY

- The **law of supply** states that, other things equal, the quantity supplied will vary directly with the price of the good. According to the law of supply, the higher the price of the good, the greater the quantity supplied, and the lower the price of the good, the smaller the quantity supplied.
- The quantity supplied is positively related to the price because firms supplying goods and services want to increase their profits, and the higher the price per unit, the greater the profitability generated by supplying more of that good or service. Also, if costs are rising for producers as they produce more units because of the law of increasing opportunity costs, they must receive a higher price to make it worth their while to increase output.
- An **individual supply curve** is a graphical representation that shows the positive relationship between the price and the quantity supplied.

Exhibit 1: *An Individual Supply Curve*

- The **market supply curve** for a product is the horizontal (quantity) summation of the individual supply curves. It reflects the fact that the total quantity sold in the market at a price is the sum of the quantities sold by each supplier.

Exhibit 2: *A Market Supply Curve*