

Ladies and gentleman, here we are back with part 5. We'll continue our discussion of the supply curve. We're talking about how the supply curve shifts. In the previous part we talked about how it would shift to the left, where less would be supplied at every price. Now we'll look at how the supply curve would shift to the right with more supplied at every price. Again, if there were a sudden increase in the number of suppliers then, that would cause the supply curve to shift to the right, there would be more supplied at every price. An example of that might be of a business where there's so much demand for that product that all the producers are making a very good profit so other entrepreneurs might decide to go into that business themselves and again would be adding to the supply so more would be supplied at every price. If there was a decrease in the price of an input, we use the example a few minutes ago about the price of fertilizer going up, well if the price of fertilizer went down a whole lot then, more would be supplied at every price because the cost of production would be less therefore, you could have more coffee beans at every price. If there was an improvement in technology, let's say that traditionally coffee beans are picked by hand and somebody invents the perfect machine that can go down the row of coffee plants and can pick just the right beans, just right, and do it better than a person can do it, now the labor cost per pound of coffee is going to go down dramatically. Therefore, we have improved technology with lower costs and we'll have more supplied at every price. If there is a change in the expectations of the suppliers, let's say they expect things to be economically better and they think that they are going to be able to sell a lot more coffee they'll start gearing up in advance planning more coffee plants and therefore, providing more supply at every price. If there is a decrease in the price of that related product, we used the example of gasoline and heating oil a few minutes ago. If that price of heating oil went down dramatically then, in all likelihood the producers of gasoline would be refining more crude oil to make gasoline rather than heating oil. The same thing would be true for our coffee growers. If the demand for a related product that the coffee growers could grow on the same land suddenly decreased dramatically say because of the actions of the drug enforcement agency then, in all likelihood they would be providing more coffee beans at every price. Well now that we talked about supply, let's see how the two, supply and demand, inter relate. What we end up doing is we plot them on to the same graph, if you will, so we superimpose one curve over the other. What we can tell immediately is that the lines do cross at a certain point, we call that point the equilibrium point. We see here that at \$5 a pound that suppliers will wish to supply 6,000,000 pounds of coffee and the consumers will wish to demand 6,000,000 pounds of coffee. So that the market will be clear, every supplier who is willing to supply coffee at \$5 a pound will have every pound of coffee that they supply demanded by consumers who want to buy coffee at \$5 a pound. Consumers will find a willing supplier willing to supply them with as much coffee as they want to buy at \$5 a pound therefore, the market is efficient at the equilibrium point and the market will be clear; there would be no shortage of coffee beans, there will be no surplus of coffee beans. That's what's important about the equilibrium and again in economics anytime you see a curve where two lines cross or two curves cross, that's the important point. What would happen to a supplier if they wish to raise their prices above that equilibrium level? Remember we assume that all the suppliers know what everyone else is doing. Everyone is charging the same price. All the consumers know immediately when one supplier does something different. Now if one supplier raises their price, what's going to happen basically, is no one's going to buy from them and they're not going to sell anything. Therefore, there is very little encouragement for them to raise their price. The flip side, if they were to lower their price, let's say here they lower the price to \$3 a pound, the equilibrium level of \$5 a pound. Well what's going to happen is they'll still sell all the coffee they want to sell

that's not the problem. The problem is they could have sold that same amount of coffee for \$5 a pound. Therefore, they would be giving up \$2 of profit for no reason. It is not a case of being able to capture more of the market. They can basically sell as much as they want to at that \$5 a pound therefore, there is no advantage in lowering their rate. It's very similar to that example that we had at the supermarket where a person comes up to check out and they pick a line based on the length of the lines and all the lines will have about the same number of people. There will be no advantage to somebody to move from one line to the other, the system will be an equilibrium. We'll continue that discussion in part 6 in a few minutes.