



Supply

★ CITIZENSHIP AND YOU ★

What roles do you play in the marketplace? You are a buyer, and you express your demand when you purchase a product. Do you have a part-time job? Do you do household chores for an allowance? By taking part in these activities, you are also a supplier. You are supplying an economic product—your labor—to buyers in the marketplace. Find three articles from newspapers that illustrate the concept of supply.



To learn more about the effect of supply and demand on prices, view the *Economics & You* video lesson 12: The Price System at Work.

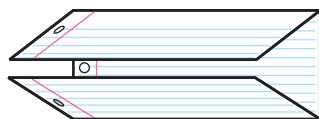


FOLDABLES™

Study Organizer

Organizing Information Study Foldable Make the following foldable to help you organize information about supply in a market economy.

Step 1 Fold a sheet of paper into thirds from top to bottom.



Step 2 Turn the paper horizontally, unfold, and label the three columns as shown.

What Is Supply?	Factors Affecting Supply	Description of Factors

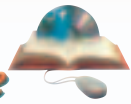
Reading and Writing

As you read the chapter, record your thoughts and the information you learn about supply in a market economy in the appropriate columns of your foldable.

New technology in the auto industry helps workers produce more cars. ▶



CIVICS
Online



Chapter Overview Visit the *Civics Today* Web site at civ.glencoe.com and click on **Chapter Overviews—Chapter 21** to preview chapter information.

What Is Supply?

GUIDE TO READING

Main Idea

For almost any good or service, the higher the price, the larger the quantity that will be offered for sale.

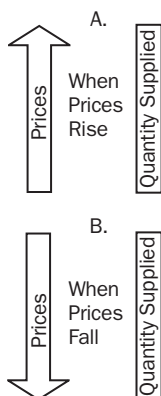
Key Terms

supply, law of supply, supply schedule, supply curve, profit, market supply

Reading Strategy

Organizing Information

Draw the diagrams shown below. As you read this section, complete the diagrams by adding arrows to indicate increase or decrease to the Quantity Supplied bar.



Read to Learn

- What does the law of supply state?
- What is the difference between a supply schedule and a supply curve?



Americans in Action

Just as a coin has two sides, so does a market. A coin has heads and tails; a market has a buying side and a selling side. The buying side is relevant to what is called demand, and the selling side is relevant to what is called supply. A *Philadelphia Inquirer* story discussed how supply affected price in the spring of 2001: “Retail beef prices are soaring—reaching a record \$3.21 a pound for USDA-choice cuts . . . because of a harsh Plains winter that has been tough on cattle. Prices are likely to dip by the summer, but then rebound because of tight cattle supplies. Producers are only starting to rebuild herds that they had thinned because of drought and low prices in the late 1990s. The winter has been so cold and damp that cattle are taking several months longer than usual to fatten.”



The supply of goods, like meat, affects prices.

An Introduction to Supply

In the previous chapter, you read about one of the major forces that contributes to setting prices in our economy. That force was consumers’ demand for goods and services. There is another major force at work, called supply. As you can see from the Americans in Action feature above, a low supply of beef led to high prices in early 2001.

Exploring Supply and Demand

What is supply? **Supply** refers to the various quantities of a good or service that producers are willing to sell at all possible market prices. Supply normally refers to the output of a single business or producer. However, as in the case of demand, it is also possible to add the supply of all producers together to get the supply for the entire market.

Supply is the opposite of demand. Buyers demand different quantities of a good depending on the price that sellers ask. Suppliers offer different quantities of a product depending on the price that buyers are willing to pay.



The Law of Supply

Remember that the law of demand states that the quantity demanded varies according to price. As the price rises for a good, the quantity demanded goes down. As the price of a good goes down, the quantity demanded rises.

The quantity supplied also varies according to price—but in the opposite direction. As the price rises for a good, the quantity supplied rises. As the price falls, the quantity supplied also falls. This is the **law of supply**, the principle that suppliers will normally offer more for sale at higher prices and less at lower prices. The higher the price of a good, the greater the incentive is for a producer to produce more. The producer will expect to make a higher profit because of the higher price. The profit incentive is one of the factors that motivates producers in a market economy.

We can represent the law of supply with numbers, just as we did with the law of demand. The table at the bottom of this page shows such a relationship. As the price

goes up from \$5 to \$10 to \$20 and to \$50, the quantity supplied goes up from 1 to 10 to 30 and to 100. A numerical chart, like this one, that illustrates the law of supply is called a **supply schedule**.

The Individual Supply Curve

We can also illustrate the law of supply with a graph. A **supply curve** is a graph that shows the amount of a product that would be supplied at all possible prices in the market. Like the demand curve, the supply curve graph is drawn with prices on the vertical axis and quantities on the horizontal axis. In the supply curve on this page, the quantities are the amounts of the good or service that the business will supply. The supply curve tells us that the company is willing to sell 100 video games at a price of \$50, 90 at \$40, 70 at \$30, and so on.

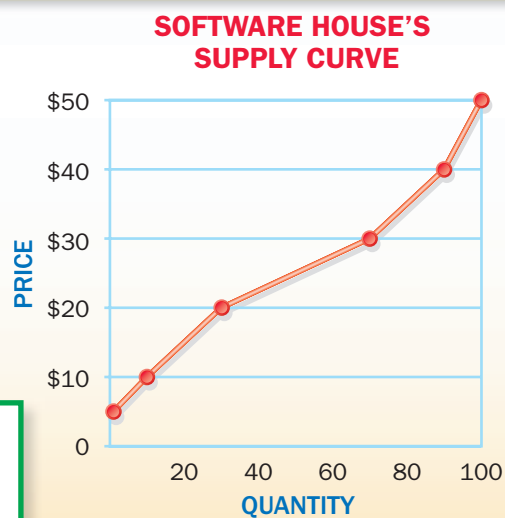
Unlike the demand curve, the supply curve slopes upward. This reflects the fact that suppliers are generally willing to offer more goods and services at a higher price and fewer at a lower price.



Software House Supply



Software House's Supply Schedule	
Price	Quantity
\$50	100
\$40	90
\$30	70
\$20	30
\$10	10
\$5	1



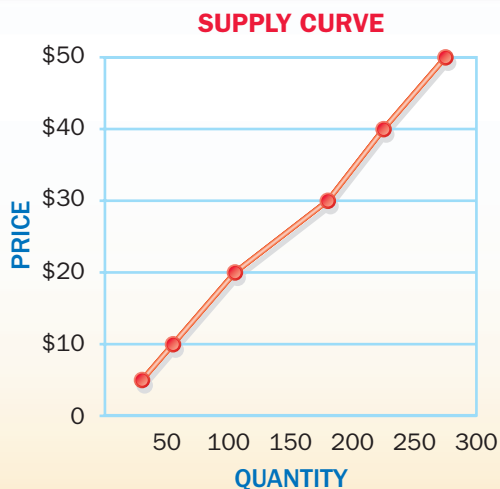
Analyzing Graphs and Charts

A supply schedule and supply curve show the quantities supplied at each possible price. **How many video games would Software House be willing to sell at a price of \$10 per game?**



Market Supply

Supply Schedule	
Price	Total Quantity Supplied
\$50	275
\$40	225
\$30	180
\$20	105
\$10	55
\$5	30



Analyzing Graphs and Charts

The market supply curve shows the quantities offered at various prices by all firms in a given market. What is the relationship between the price of a good and the quantity supplied?

The Profit Motive

Businesses invest time, money, and other capital resources in order to make money. The desire to cover costs and to earn profits explains why businesses wish to sell their goods and services at higher prices. Businesses try to set prices at a level that allows them to cover their costs. If they do not, they will lose money.

In our economy, businesses provide goods and services hoping to make a profit. **Profit** is the money a business receives for its products or services over and above its costs. If it costs Software House \$40 to make a video game and it sells the game for \$40, the company gains nothing from the sale. Like most people, though, the company wants to make some money. That requires selling the game for more than \$40. The additional money is the owner's profit.

Producers can choose to use their profits in many different ways. They can increase wages they pay their workers. They can invest the money back into the

business to acquire more space, buy new equipment, or hire new workers. They can also keep the money for themselves. Whatever profits are used for, earning them is a primary goal for business owners in our economy.

Reading Check **Defining** What is supply?

Graphing Market Supply

Recall that when you studied demand in Chapter 20, you looked at the total of all consumers' demand. This concept is called the market demand. You will do the same thing when you study supply. If you combine the supply schedules of all the businesses that provide the same good or service, the total is called the **market supply**.

An Upward Slope

The figure on this page shows the market supply for video games in one community. Notice that the market supply for all producers is larger than the supply for Software



House alone. (Compare the graphs on pages 463 and 464.) Still, the market supply curve has the same shape as in the individual supply curve. The upward slope shows that all of the producers in the market would prefer to sell more video games at higher prices and fewer games at lower prices.

The Influence of Price

When constructing a supply curve, keep in mind that the price is the most significant influence on the quantity supplied of any product. For example, you are offering your services for sale when you look for a job. Your economic product is your labor, and you would probably be willing to supply more labor for a high wage, or price, than you would for a low one.

Other Factors

However, other factors can and do affect supply. The supply curve is drawn assuming that these and other things are fixed and do not change. If any of these factors does change, a change in supply will occur—the entire supply curve will shift. You will read more about change in supply in the next section.



Analyzing Visuals Business owners always need to be aware of the relationship between supply and demand. Why is the store holding a sale?

Reading Check **Explaining** How is market supply determined?

SECTION 1



ASSESSMENT



Study Central™ To review this section, go to civ.glencoe.com and click on **Study Central™**.

Checking for Understanding

- Key Terms** Write a paragraph related to supply using these key terms: **supply, law of supply, supply schedule, supply curve, profit, market supply.**

Reviewing Main Ideas

- Explain** What does the law of supply state?
- Compare** Describe the difference between the supply curve and the supply schedule. What do the supply curve and the supply schedule show?

Critical Thinking

- Cause and Effect** How does the incentive of greater profits affect the quantity supplied?
- Organizing Information** Create a graph by plotting the information shown on the supply schedule below.

Price (dollars)	Quantity Supplied (units)
\$1	10
2	20
3	30
4	40

Analyzing Visuals

- Interpret** Study the individual supply schedule and curve on page 463. How many video games will be supplied at a price of \$30?

★ BE AN ACTIVE CITIZEN ★

- Research** Clip articles from newspapers or magazines that show the law of supply in operation. Discuss your clippings in class.



SECTION

2

Factors Affecting Supply

GUIDE TO READING

Main Idea

Several factors can cause supply to either increase or decrease.

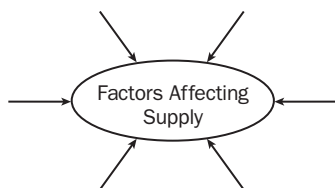
Key Terms

productivity, technology, subsidy, supply elasticity

Reading Strategy

Organizing Information

As you read the section, complete a diagram like the one below by identifying six factors that can lead to a change in market supply.



Read to Learn

- What are the factors that can change supply?
- What is supply elasticity?



Americans in Action

As you've learned, consumers demand products and services at the lowest possible prices. In contrast, suppliers, like Wal-Mart, exist to make a profit. *U.S. News & World Report* discussed the actions other suppliers had to take to compete with Wal-Mart: "Retailers also have to keep prices low to compete against Wal-Mart, the world's biggest merchant. 'They make the supply chain so efficient that it cuts costs,' says [economist Frank Badillo]. Last week, for example, Wal-Mart said it wouldn't use a particular Visa debit-card system because transaction fees had been increased. Wal-Mart passes on such savings to consumers, who then expect the same from the competition. So the likes of Target, Kmart, Sears, Kohl's, and department stores duke it out to woo consumers."



Suppliers compete with one another for customers.

Changes in Supply

Remember that demand does not stay the same over time. When consumers' situations change—or as the economy changes—demand increases or decreases. It probably is not surprising to hear that the same is true with supply. Supply can increase or decrease, depending on many different factors.

In order for a change in supply to take place, producers must decide to offer a different quantity of output at each possible price in the market. This might happen for a number of reasons—changes in the cost of production, in government policies, in the number of producers, or in the expectations of businesses.

When supply goes down, the supply curve moves to the left. When supply goes up, the supply curve is pushed to the right. In this case, suppliers are willing to sell a larger quantity of goods and services at lower prices. You can see these changes in the figure on page 468. Now let us look at what can cause supply to change.



Changes in the Cost of Resources

Earlier, you learned how four resources, or factors of production, are used to produce goods and services. When these resource prices fall, sellers are willing and able to produce and offer to sell more of the good. The supply curve shifts to the right. The reason for this is that it is cheaper to produce the good.

When resource prices rise, sellers are less able to produce and sell the same quantities of the good. The supply curve shifts to the left, because it is more expensive to produce the good.

Productivity

One way businesses can cut costs—and increase profits—is by improving productivity. **Productivity** is the degree to which resources are being used efficiently to produce goods and services. Most of the news you will hear about productivity concerns labor. When workers are more efficient—when they produce more output in the same amount of time—a company's costs go down. The result is that more products

are produced at every price, which shifts the supply curve to the right. When productivity falls, it costs more for a company to produce the same amount of goods and services. In this case, the supply curve will shift to the left.

Technology

Costs are also affected by technology. **Technology** refers to the methods or processes used to make goods and services. New technology can speed up ways of doing things. At many stores, cashiers use scanners to register the prices of goods that customers are buying. These scanners do more than speed up checkout. They also automatically track the number of units that the store has sold and how many are left on the shelf. As a result, store managers quickly know when they need to reorder a product. This is faster than having workers count all the goods on the store's shelves.

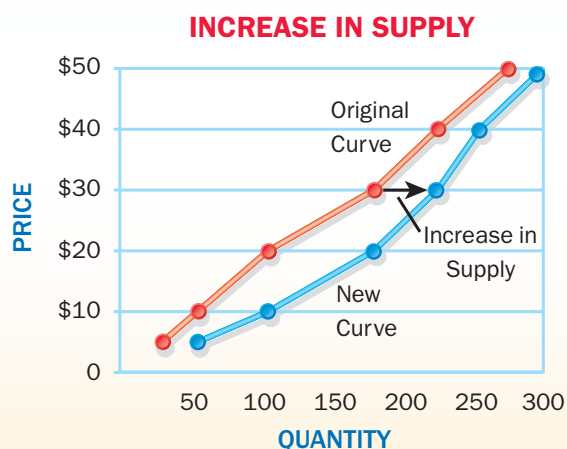
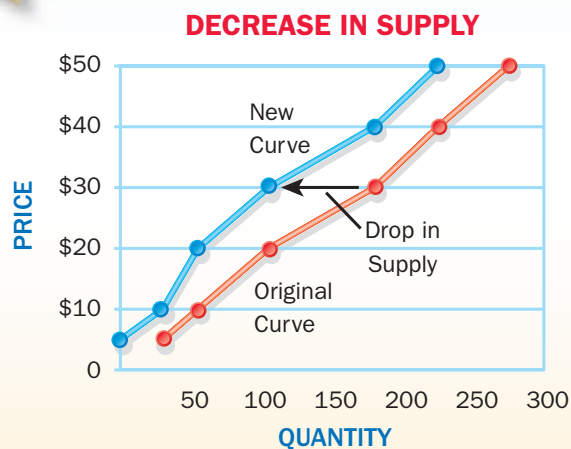
Technology often can cut a business's costs. This pushes the supply curve to the right, showing that the business is willing to supply more at the same price.

Technology New computer technology has greatly increased productivity.
What effect does improved technology usually have on supply?





A Change in Supply



Analyzing Graphs

A change in supply means that a different quantity is supplied at every price. What does a shift of the supply curve to the right show?

Changes in Government Policies

Actions by the government can affect supply as well. Suppose that the government passes a law requiring that fast-food restaurants pay all workers \$10 an hour. The restaurants—faced with higher labor costs—might then decide to lay off some workers. The fewer workers who remain would produce fewer hamburgers, resulting in a decrease in supply.

When the government establishes new regulations, the cost of production can be affected, causing a change in supply. For example, when the government orders new safety features for automobiles, such as air bags or emissions controls, autos cost more to produce. Auto manufacturers adjust to the higher production costs by producing fewer cars at each and every price in the market.

In general, increased—or tighter—government regulations restrict supply, causing the supply curve to shift to the left. Relaxed regulations allow producers to lower the cost of production, which results in a shift of the supply curve to the right.

Changes in Taxes and Subsidies

Tax laws also affect businesses. To businesses, taxes are a cost. Higher taxes mean higher costs, pushing the supply curve to the left. Lower taxes—lower costs—move the supply curve to the right. This increases the amount of a good or service supplied at each and every price.

A **subsidy** is a government payment to an individual, business, or other group for certain actions. Suppose the government subsidizes the production of corn by paying farmers \$2 for every bushel of corn. The subsidy lowers the cost of production and encourages current producers to remain in the market and new producers to enter. When subsidies are repealed, costs go up, producers leave the market, and the supply curve shifts to the left.

Finally, the expectations of producers affect supply as well. If businesses believe that consumer demand will not be very high in the near future, they will produce less of their products. This cuts down on the supply. On the other hand, if they



expect demand to go up, they will produce more at all possible prices. This is the reason that stores stock up on swimsuits as summer nears. They expect that consumers will want to buy more of these garments at that time of the year.

A change in the number of the suppliers causes a change in market supply. As more firms enter an industry, the supply curve shifts to the right. In other words, the larger the number of suppliers, the greater the market supply. If some suppliers leave the market, supply decreases, shifting the curve to the left.

Elasticity of Supply

Like demand, supply can be elastic or inelastic. **Supply elasticity** is a measure of how the quantity supplied of a good or service changes in response to changes in price. If the quantity changes a great deal when prices go up or down, the product is

said to be supply elastic. If the quantity changes very little, the supply is inelastic.

Supply elasticity depends on how quickly a company can change the amount of a product it makes in response to price changes. Oil is supply inelastic. When oil prices go up, oil companies cannot quickly find a new site with oil, dig a new well, build a pipeline to move the oil, and build a refinery to turn it into gasoline. The same is true of other products that require producers to invest large sums of money in order to produce them.

The supply curve is likely to be elastic, however, for kites, candy, and other products that can be made quickly without huge amounts of capital and skilled labor. If consumers are willing to pay twice the price for any of these products, most producers will be able to gear up quickly to increase production.

Reading Check Explaining What is supply elasticity?

SECTION 2 ASSESSMENT



Study Central™ To review this section, go to civ.glencoe.com and click on **Study Central™**.

Checking for Understanding

1. Key Terms Write a paragraph about supply in which you use all of the following terms: **productivity, technology, subsidy, supply elasticity.**

Reviewing Main Ideas

- 2. Explain** In which direction does the supply curve shift when supply decreases? In which direction does the supply curve shift when supply increases?
- 3. Explain** What determines whether a business's supply curve is elastic or inelastic? Is supply elastic or inelastic in a situation in which the price of books rises 10 percent and the quantity supplied rises 15 percent?

Critical Thinking

- 4. Making Generalizations** Why does new technology shift the supply curve to the right?
- 5. Understanding Cause and Effect** Complete a table like the one below to explain how supply would be affected—would it increase or decrease in these situations?

Cause	Effect on Supply
The cost of a product's basic raw materials goes down.	
Government offers tax incentives to your company.	

Analyzing Visuals

- 6. Identify** Describe what the two graphs on page 468 are showing. Which of the graphs more accurately illustrates a situation in which the number of firms in an industry increases?

★ BE AN ACTIVE CITIZEN ★

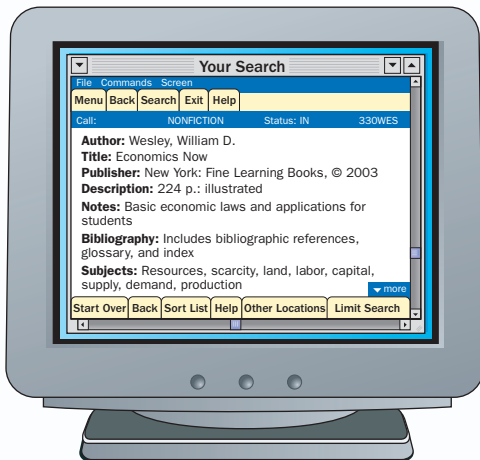
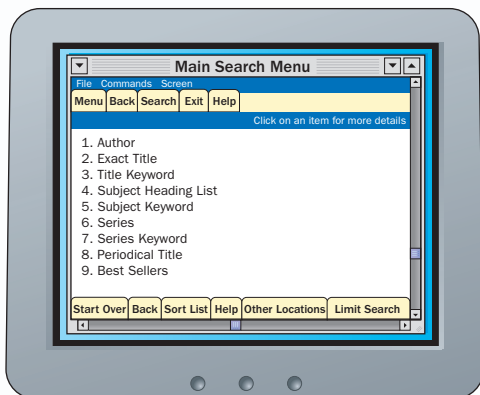
- 7. Analyze** Contact the foreign language teachers in your school to see if they have any advertising material from other countries. Even without translating the language, can you understand the purpose of the advertisement? Write several paragraphs describing how marketing in other countries differs from our ads.

Technology SKILLBUILDER

Using a Computerized Card Catalog

Why Learn This Skill?

Libraries contain an overwhelming amount of information. Going to the library to find information or to check out a certain book usually means using the card catalog to help you narrow your search. The card catalog lists all the book titles, periodicals, recordings, and other publications the library offers. Modern libraries store their card catalogs in computer databases.



[book on call screen not an actual publication]

Learning the Skill

Using a computerized card catalog makes it easy to find any information you need for a term paper or a research project. The following guidelines will help you get started in your search for information.

- Type in a subject heading, or the name of an author, or the title of a book, videotape, audiocassette, or CD.
- The computer will list on screen the subject, author, or title you requested.
- The “card” that appears on screen also lists other important information. Use this information to determine if the material meets your needs.
- Check to see if the material is available. Find the classification and call number under which it is shelved.
- Ask a librarian for help if needed.

Practicing the Skill

Study the computerized card catalog screens to the left. Then answer the following questions.

- 1 Your research topic is “supply and demand.” Which options might you select from the Main Search Menu?
- 2 You narrow your search to a book titled *Economics Now*. How do you know this title will be of help to you?
- 3 Why might you use the “Author” search option on the Main Search Menu?

Applying the Skill

Select a topic from this chapter. Search your topic on a computerized card catalog. Jot down two titles and explain why you think they would be useful.

Markets and Prices

GUIDE TO READING

Main Idea

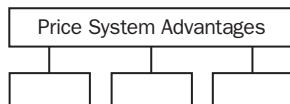
Supply and demand work together to determine market price.

Key Terms

surplus, shortage, equilibrium price

Reading Strategy

Understanding Cause and Effect As you read the section, complete a diagram like the one below by describing three advantages of using prices to distribute goods and services.



Read to Learn

- How do demand and supply work together to determine price?
- How do shortages and surpluses affect price?



Americans in Action

In markets, supply and demand work together to determine prices. In the oil industry, supply is influenced by the Organization of Petroleum Exporting Countries [OPEC], an 11-nation group of oil producing countries. For example, when gasoline prices were low in the 1970s, OPEC restricted the supply of oil to force prices up. By 2005, however, gasoline prices got so high that OPEC tried to bring them down by increasing the world supply of oil. A Reuters article that year reported that: “New production capacity from OPEC producers will help oil stocks build in coming months and be enough to cope with an expected late-year demand surge . . . OPEC capacity will grow by 1.6 million barrels per day to 32.7 million this year as big new facilities start.

. . . Higher OPEC supply, and rising inventory in the United States, has helped pull world oil prices from record highs above \$58 a barrel. U.S. crude closed down 64 cents at \$50.49 a barrel yesterday.” Of course, OPEC can always change its mind - in which case prices could rise again instead of fall.



Oil suppliers

Supply and Demand at Work

In 2005 the oil producers who made up OPEC felt that demand was too high and supply too low. As a result, their oil was selling for more than they wanted. Their action of increasing supply shows how supply and demand work together in the market to set price.

As you learned earlier, a market is any place or mechanism where buyers and sellers of a good or service can get together to exchange that good or service. For example, people who want to buy corn might go to a farmers’ market or a supermarket. Someone who wants to buy stock might use a computer to purchase it from a stock market. In each case, markets bring buyers and sellers together.

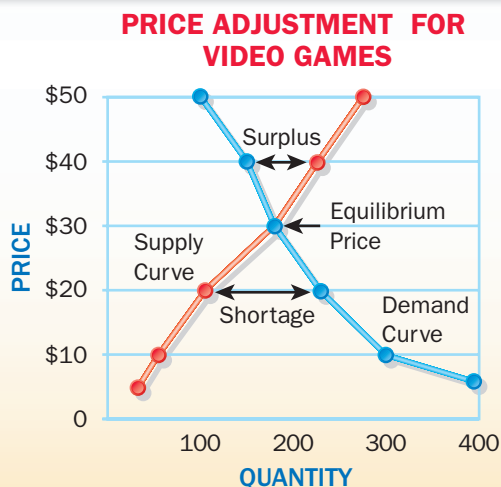


The Price Adjustment Process

Price	Total Quantity Demanded	Total Quantity Supplied
\$50	100	275
\$40	150	225
\$30	180	180
\$20	230	105
\$10	300	55
\$5	400	30

Analyzing Graphs and Charts

A supply curve can be combined with a demand curve to analyze the price adjustment process. At what price does quantity demanded equal quantity supplied?



The forces of supply and demand, as we saw in the feature, work together in markets to establish prices. In our economy, prices form the basis for economic decisions.

The Price Adjustment Process

Markets consist of all buyers and sellers of a product. To see how supply and demand work together, we need to combine the supply and demand curves. Look at the graph on this page. It shows the market demand curve for video games from Chapter 20 and the market supply curve for those games (from page 464).

Surplus

Suppose we start by watching how buyers and sellers react to a price of \$40 in this market for video games. The graph shows that sellers will supply 225 video games to the market at this price. Buyers, however, are willing to buy only 150 games at \$40 each. This leaves a surplus of 75 video games.

A **surplus** is the amount by which the quantity supplied is higher than the quantity demanded. The surplus also appears as the horizontal distance between the supply

and demand curves at any point above where the demand and supply curves intersect. A surplus signals that the price is too high. Consumers are unwilling to pay the price in large enough numbers to satisfy producers. If the market is competitive, this surplus will not exist for long. Sellers will have to lower their price if they want to sell their goods.

Shortage

What if the price had been \$20? Look at the graph again. At this price, suppliers offer only 105 video games for sale. Consumers, though, are willing to buy 230 games. This difference is a shortage. A **shortage** is the amount by which the quantity demanded is higher than the quantity supplied. The shortage is shown as the horizontal distance between the two curves at any price below the point where demand and supply cross.

A shortage signals that the price is too low. In this situation, suppliers are unwilling to sell their goods or services in large enough numbers to meet all the demand. If the market is competitive, the shortage will not last. The price will have to rise.



Market Forces

One of the benefits of the market economy is that it eliminates shortages and surpluses when it operates without restriction. Over time, a surplus forces the price down and a shortage forces the price up. This goes on until supply and demand are balanced. The point where they achieve balance is the **equilibrium price**. At this price, there is neither a surplus nor a shortage. In the figure on page 472, the equilibrium price for video games is \$30.

Once the market price reaches equilibrium, it will tend to stay there until either supply or demand changes. Once that happens, the market will have a temporary surplus or shortage. If there is a surplus, the price will be driven down. If there is a temporary shortage, the price will be driven up. The price will move in this way until the market establishes a new equilibrium price.

Price Controls

Occasionally the government sets the price of a product because it believes that the forces of supply and demand are unfair. When this happens, the new price may favor either consumers or producers.

A price ceiling is a government-set maximum price that can be charged for goods and services. For example, city officials might set a price ceiling on what landlords may charge for rent. A price floor is a government minimum price that can be charged for goods and services. Price floors—more common than price ceilings—prevent prices from dropping too low. The minimum wage, the lowest legal wage that can be paid to most workers, is a price floor.

Reading Check Explaining If the price of a product is above its equilibrium price, what is the result?

Dan Nally likes to talk turkey. In 1996, Dan and his sister, Betsy, began persuading people to donate turkeys and money to feed the hungry at Thanksgiving. Their program, Turkeys 4 America, has been a huge success and has received a great deal of attention. Since 1996, they have provided needy families with over one million servings of turkey.

“We got 36 turkeys the first year,” Nally told TIME. “From there it just took off. We knew that we’d get a lot of support, but we never imagined we’d get this much.”

The Boston-area youth took action at age 8, after learning that thousands in his state wouldn’t get to gobble turkey at Thanksgiving. “Our family was watching the news one night and saw that the food bank was short,” says Nally. “Think about what these people must go through. Thanksgiving is a time when we’re supposed to be thankful, and some people have nothing on their plate. That was enough to inspire me to do this.” Their efforts gained national attention as well.

Nally also eventually enlisted the help of chicken tycoon Jim Perdue, local businesses, the school district’s superintendent, Nally’s friends, and his parents to keep the effort going. Nally has also appeared on *Oprah* and *The Today Show*, which has helped him spread the word.

“I hope to continue to do this for a long time,” says Nally. “Hopefully, other kids will want to do this themselves too.”


Interested in learning more about Turkeys 4 America? Click on their Web site: www.turkeys4America.org

Dan Nally and his sister





American Biographies




Jeffrey Bezos (1964–)
 In 1994 Jeff Bezos left a secure job to jump into e-commerce—the buying and selling of goods over the Internet. With use of the Internet growing at 2,300 percent in a one-year period, he asked, “OK, what kind of business opportunity might there be here?”

Bezos decided to open the world’s biggest online bookstore—Amazon.com. Since 1995, he has added other products—CDs, videos, pots and pans, auctions, and more. As the 2000s opened, Amazon.com had become one of the leading e-tailers—online retailers or merchants.

People who know Bezos are not surprised by his success. Born in Albuquerque, New Mexico, Bezos learned to work hard on his grandfather’s Texas cattle ranch. After moving to Florida, he graduated as valedictorian from a Miami high school. He then went on to Princeton University, where he majored in computer science.

Does Bezos think e-commerce will prosper? Yes, he says. Just like the Industrial Revolution reshaped the nineteenth century, he believes Internet commerce will reshape the century in which we now live.



Prices as Signals

The different parts of the economy need a system of signals so they can work smoothly together. In our economy, prices are signals. They help businesses and consumers make decisions. Prices also help answer the basic economic questions—WHAT to produce, HOW to produce, and FOR WHOM to produce.

For example, consumers’ purchases help producers decide WHAT to produce. They focus on providing the goods and services that consumers are willing to buy at prices that allow the suppliers to earn profits. A company will make video games as long as consumers are willing to buy them at a price that generates profits. If consumers aren’t willing to pay that price, the company won’t be willing to make video games.

Prices also help businesses and consumers decide the question of HOW to produce. Suppose it costs a hair salon \$20 in labor and supplies to provide a haircut. Consumers, though, are willing to pay only \$15 for the haircut. To stay in business, the salon needs to find less costly ways of providing that haircut. That way, it can afford to meet the price consumers are willing to pay.

Finally, prices help businesses and consumers decide the question of FOR WHOM to produce. Some businesses aim their goods or services at the small number of consumers who are willing to pay higher prices. Other businesses aim their goods or services at the larger number of people who want to spend less.

Advantages of Prices

You know that consumers look for the best values for what they spend, while producers seek the best price and profit for what they have to sell. The information that prices provide allows people to work together to produce more of the things that people want.

Without prices, the economy would not run as smoothly, and decisions about allocating goods and services would have to be made some other way. Prices do a good job answering the questions of WHAT, HOW, and FOR WHOM to produce.

Prices Are Neutral First, prices in a competitive market economy are neutral because they favor neither the producer nor



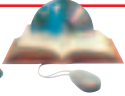
the consumer. Prices are the result of competition between buyers and sellers. In this way, prices represent compromises with which both sides can live. The more competitive the market is, the more efficient the price adjustment process.

Prices Are Flexible Second, prices in a market economy are flexible. Unforeseen events such as war and natural disasters affect the supply and demand for items. Buyers and sellers react to the new level of prices and adjust their consumption and production accordingly. Before long, the system functions as smoothly as it had before. The ability of the price system to absorb unexpected “shocks” is one of the strengths of a market economy.

Prices and Freedom of Choice Third, the price system provides for freedom of choice. Because a market economy typically provides a variety of products at a wide range of prices, consumers have many choices. If the price is too high, a lower-priced product can usually be found. Even if a suitable alternative cannot be found, no one forces the consumer to pay a certain price for a product in a competitive market economy.

In command economies, such as those found in Cuba and North Korea, consumers face limited choices. Government planners determine the total quantity of goods produced—the number of radios, cars, toasters, and so on. The government then limits the product’s variety to keep production costs down. Items such as food, transportation, and housing are offered to citizens at artificially low prices, but seldom are enough produced to satisfy everyone. Many people go without.

Prices Are Familiar Finally, prices are something that we have known about all our lives—they are familiar and easily understood. There is no ambiguity over a price—if something costs \$4.99, then we know exactly what we have to pay for it. This allows people to make decisions quickly and efficiently.

CIVICS Online 
Student Web Activity Visit civ.glencoe.com and click on **Student Web Activities—Chapter 21** to learn more about supply of products.

Reading Check Explaining What signal does a high price send to buyers and sellers?

SECTION 3 ASSESSMENT



Study Central™ To review this section, go to civ.glencoe.com and click on **Study Central™**.

Checking for Understanding

1. Key Terms Write short paragraphs about price using these terms: **surplus, shortage, equilibrium price.**

Reviewing Main Ideas

- 2. Explain** What is the point called at which the quantity demanded of a product and the quantity supplied meet?
- 3. Explain** What causes prices to rise—a shortage or a surplus of a good or service?

Critical Thinking

- 4. Drawing Conclusions** If a firm charges a price below the equilibrium price, will the price go up or down? Explain.
- 5. Understanding Cause and Effect** Create a diagram like the one below to show how shortages and surpluses affect prices of goods and services.



Analyzing Visuals

6. Infer Study the graph of the price adjustment process on page 472. Does a price of \$40 result in a surplus or a shortage? What is the equilibrium price?

★ BE AN ACTIVE CITIZEN ★

7. Research Compare the prices of a product at three stores. What do the individual prices tell you about the equilibrium price for the product?

Assessment & Activities

Review to Learn

Section 1

- Supply is the willingness and ability to provide goods and services at different prices.
- As the price rises for a good, the quantity supplied also rises. As the price falls, the quantity supplied falls.



Section 2

- A change in supply is a change in the quantity that will be supplied at each and every price.
- Several factors can result in a change in market supply.



Section 3

- In free enterprise systems, prices serve as signals to consumers and producers. Prices help decide the WHAT, HOW, and FOR WHOM questions.

FOLDABLES™

Study Organizer

Using Your Foldables Study Organizer

After you have completed your foldable, pair up with a classmate. One person should name a factor that affects supply. The other person should describe how that factor affects supply. Take turns in the same manner until you have named all of the factors.

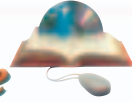
Reviewing Key Terms

Write the key term that best matches each definition below.

1. result when the quantity demanded is greater than the quantity supplied
2. price when the amount producers are willing to supply is equal to the amount consumers are willing to buy
3. result when the quantity supplied is greater than quantity demanded
4. a government payment to encourage or protect a certain economic activity
5. the amount of a good or service that producers are able and willing to sell at various prices
6. graph showing the quantities supplied at each possible price
7. table showing quantities supplied at different possible prices
8. a measure of how the quantity of a good or service produced changes in relation to changes in price

Reviewing Main Ideas

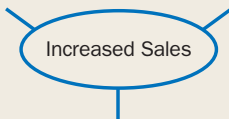
9. How does the price of a product affect the quantity offered for sale?
10. How does supply differ from demand?
11. Why does the supply curve slope upward and to the right?
12. List the factors that can cause an increase or decrease in supply.
13. How is the equilibrium price determined?
14. What effect does a shortage have on the price of goods and services?
15. What would an increase in taxes do to the position of the supply curve?
16. If the price of a product is above its equilibrium price, what is the result?
17. How does the price system provide for freedom of choice?



Self-Check Quiz Visit the *Civics Today* Web site at civ.glencoe.com and click on **Self-Check Quizzes—Chapter 21** to prepare for the chapter test.

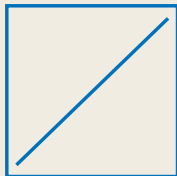
Critical Thinking

- 18. Making Generalizations** Some people argue that an equilibrium price is not a fair price. Explain why you agree or disagree with this statement.
- 19. Categorizing Information** Suppose that you own a store that sells shoes. On a diagram like the one below, identify three different things you could do to try to increase the demand for your product.



Analyzing Visuals

- 20.** Reproduce the diagram below. Draw arrows indicating the direction of movement of the supply curve—and the new supply curve—for each of the following:
- The supply curve for television sets if the price of raw materials used in making TVs falls.
 - The supply curve for television sets after the government cuts taxes on sales of TVs.



Practicing Skills

- 21. Using a Computerized Card Catalog** Reread the paragraphs under Learning the Skill on page 470. Then use a library computerized card catalog to research and produce a brochure on market demand. Select one product. Trace how the product was introduced and how the market reacted to it.



Economics Activity

- 22.** What do merchants usually do to move items that are overstocked? What does this tell you about the equilibrium price for the product?

★ CITIZENSHIP COOPERATIVE ACTIVITY ★

- 23.** Working in teams of five, compare the prices of a single brand of one of these products at four different stores: orange juice, coffee, chicken soup, frozen pizza, and flour. Calculate the unit price of each brand, and choose the brand that is the better buy for each food product. Share your findings with your team and then with the class as a whole.

Standardized Test Practice

Directions: Choose the *best* answer to the following question.

What will happen to prices when the supply of a product increases and demand is inelastic?

- A** Prices will rise markedly.
- B** Prices will fall markedly.
- C** Prices rise slightly.
- D** There is no effect on prices.

Test-Taking Tip

This question requires you to understand the economic concepts of *supply*, *demand*, and *elasticity*. If you have trouble answering the question, review these concepts, then try again.