

**University of Guelph
Numeracy Project**

About Supply: Examples



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About Supply: Examples

Background

Example

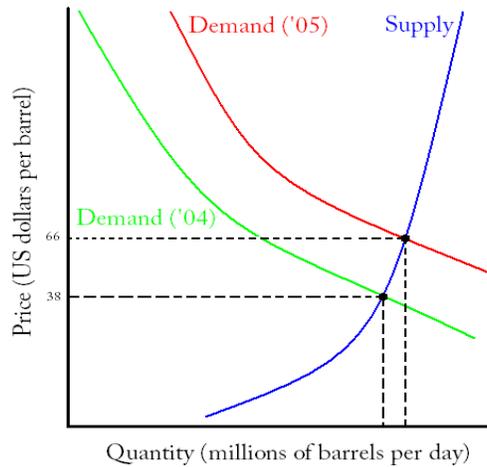
- ▶ The price of crude oil reached \$66 US a barrel in August of 2005.
- ▶ The reported reason for this price increase was an unexpected decrease in the supply of crude, as the result of a number of refinery closures.
- ▶ One trader stated the general perception was that supply would be insufficient, while also emphasizing that shortages would not actually be this severe.

Economic Analysis

- ▶ The price of crude oil increased from an average of \$38 US a barrel in 2004 to \$66 a barrel in August of 2005.
- ▶ The quantity of crude oil produced increased from 83 million barrels a day in 2004 to 84 million barrels a day in 2005.

Supply Curve

- ▶ Consider the graph below.



What we see illustrated here is that with an increased demand between 2004 and 2005, the quantity of crude oil produced was minimally increased, while the price was significantly increased. So, with relatively constant supply and significantly increased demand, the buyer's threshold for payment rose.

Conclusion

- ▶ To summarize, we have seen that levels of supply are somewhat variable, deeply intertwined with demand. This property can be seen across numerous areas in society, and can be observed during various time intervals (e.g. week-to-week, year-to-year, etc.).

Case 2

Example

- ▶ Suppose Ontario were to remove all taxes from textbook sales.

Reducing tax for vendors is equivalent to decreasing cost, which will translate to an increase in supply.

The position of the resulting supply curve can be found through subtraction of the original tax amount from the minimum price that vendors were previously willing to pay for each quantity level.