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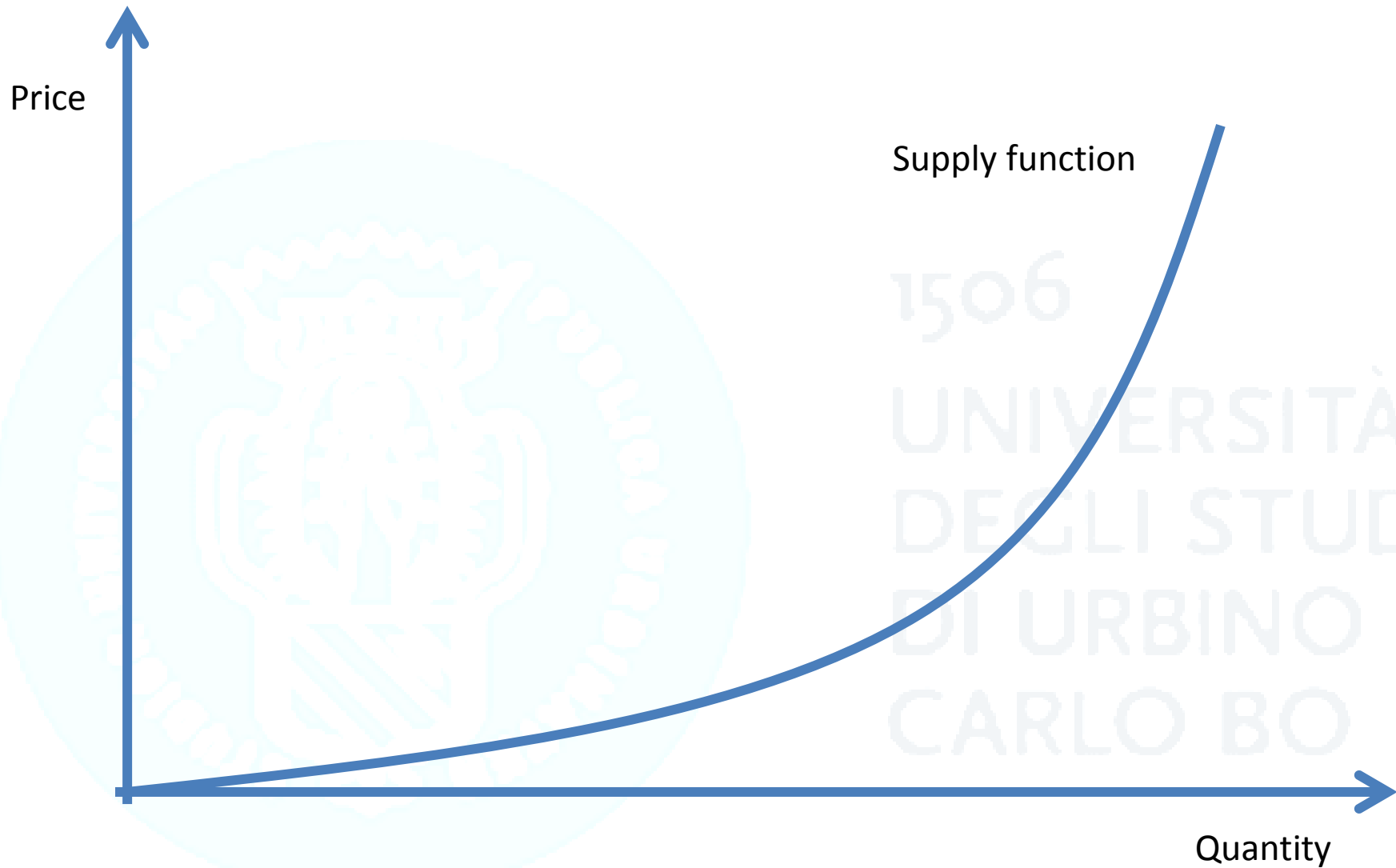
# Basic concepts of microeconomics and industrial organization: Supply function and equilibrium

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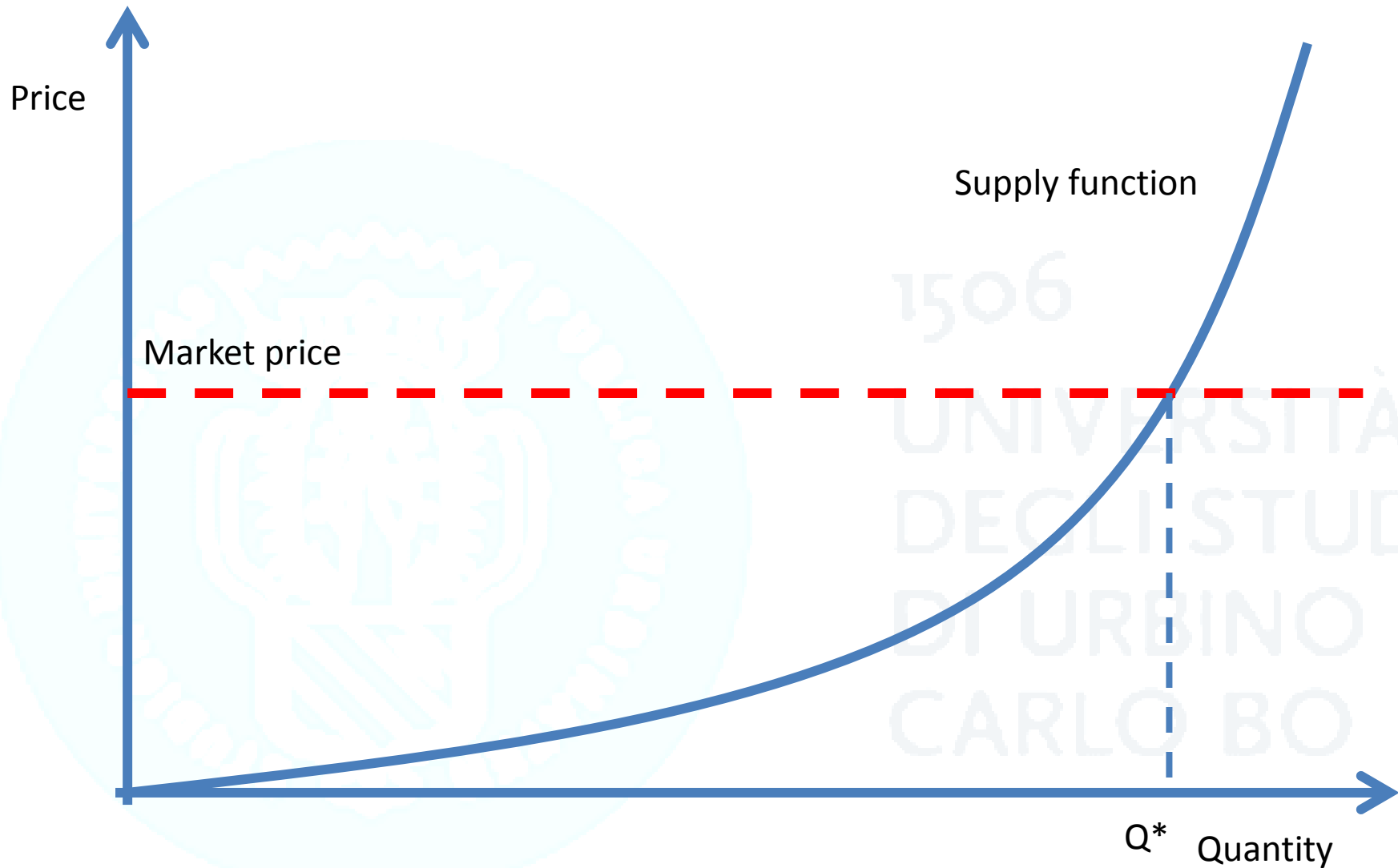
# Supply function

- **Supply** indicates the **quantities** of a good or service which the **seller** is **willing** and **able** to **provide** at various **prices**
- **Law of supply** → ceteris paribus, the **quantity** supplied of a commodity will be **larger** at **higher** market **prices** and smaller at lower market prices



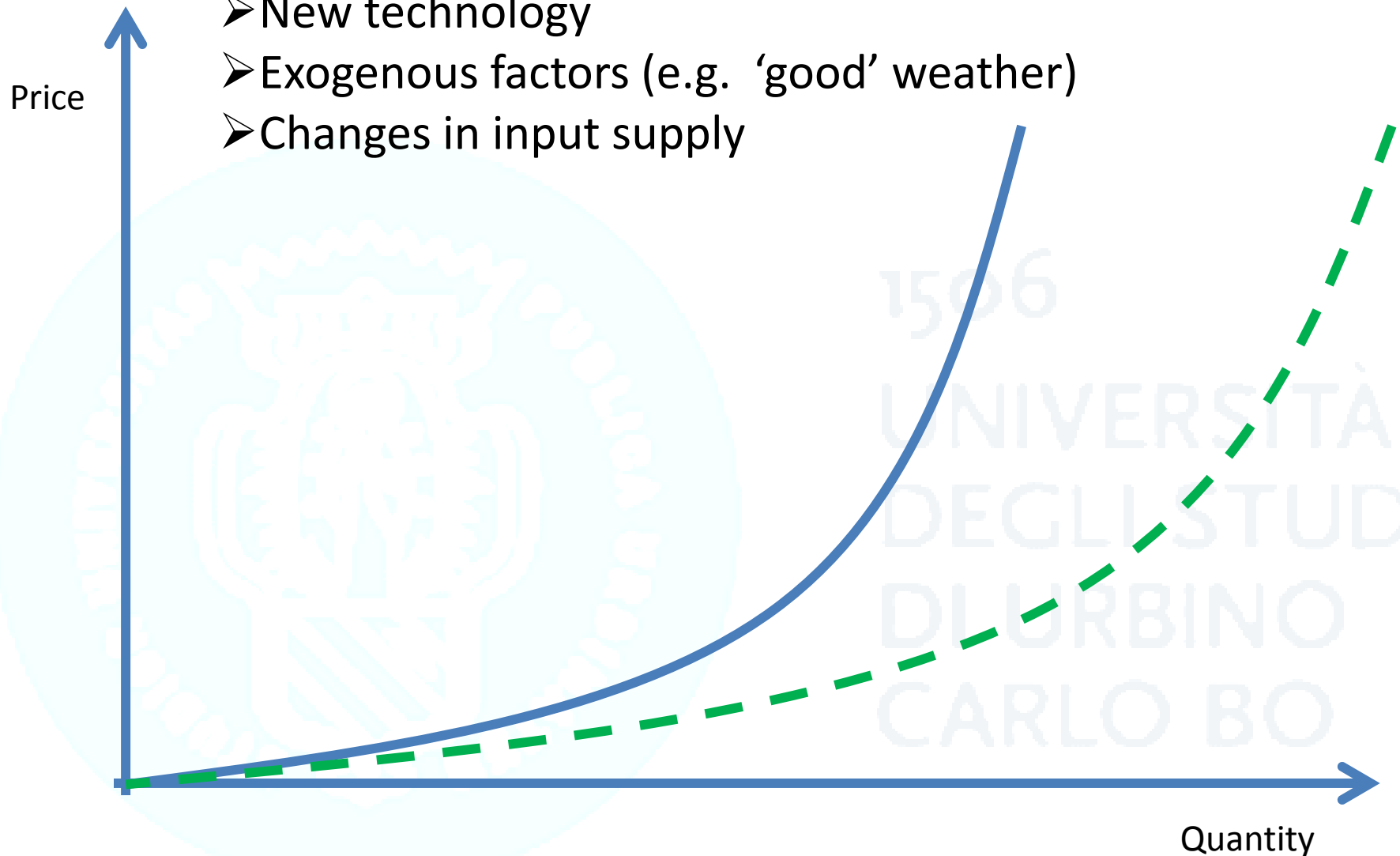
# Law of diminishing returns

- The **successive unit of input** does **not** produce the **same** extra **output** as the **previous** one
- Important to **distinguish** between the role played by **diminishing (marginal) returns** and the role played by **returns to scale**



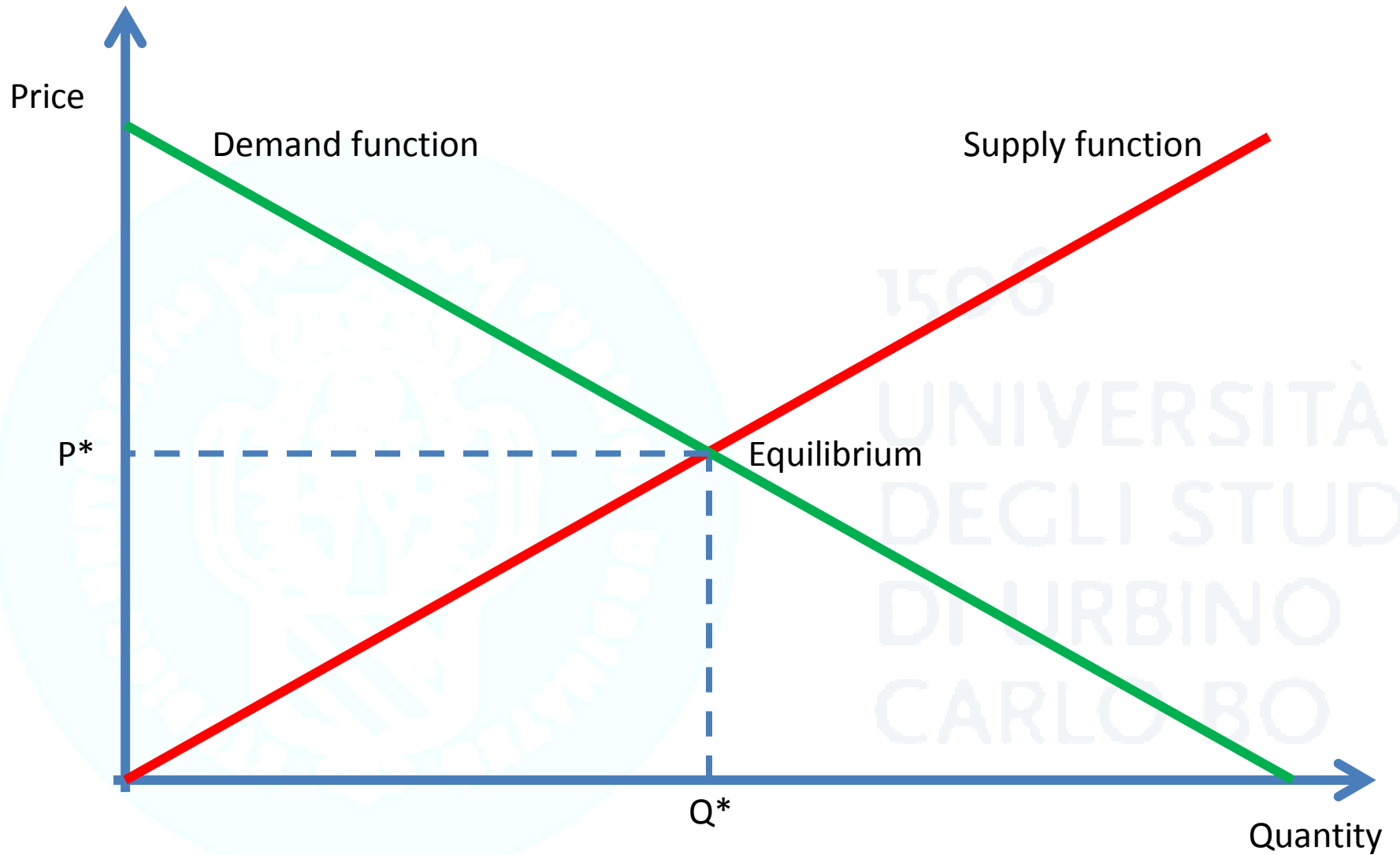
## Supply shifts to the right if:

- New discoveries (e.g. gas or oil)
- New technology
- Exogenous factors (e.g. 'good' weather)
- Changes in input supply

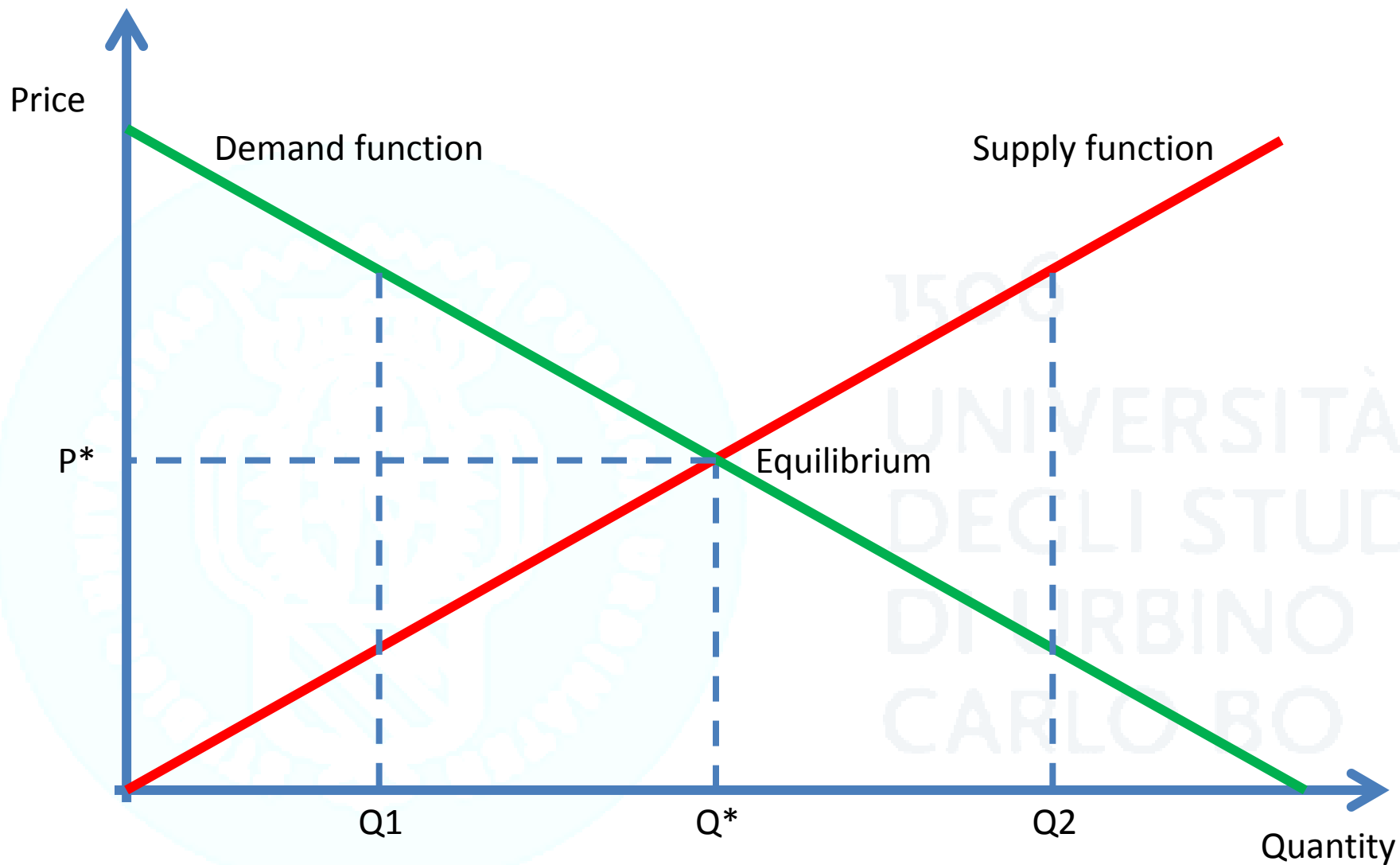


# Equilibrium in competitive markets

- Assumptions:
  - Large **number** of **buyers** and **sellers**
  - **Nobody** can **control** and have an **influence** on **market prices** (consumers and producers are **price-takers**)







# Total and marginal revenues

- **Revenues of a firm as a function of prices and quantity**
  - **Total revenues** are given by :  $TR(Q)=Q*P(Q)$  where  $P(Q)$  is the demand function
  - **Average revenues** are is the average amount (per unit of  $Q$ ) of money received by the producer from selling a certain quantity  $Q \rightarrow AR=TR(Q)/Q=P(Q)$
  - **Marginal revenue**  $\rightarrow$  revenue received from selling an additional unit of the good  $MR(Q)=dTR/dQ$

