**The supply curve**

Now that we've got the demand curve down, let's move on to the supply curve. ***A supply curve shows how much of a good suppliers are willing and able to supply at different prices.*** As with the demand curve, there's a supply curve for every good and service. And again the ideas are the same so let's look at the supply curve for oil. We see an **intuitive** **relationship** between price and the quantity supplied. **As the price goes up, the quantity of oil that companies are willing to supply increases.** In this example, in a **low** price, $5 per **barrel**, let's say 10 million barrels of oil are supplied **per day**. At $20 per barrel, 25 million barrels are supplied, and at $55 per barrel, 50 million barrels are supplied.

So in **general**, a **higher** price means a **greater** **quantity** **supplied**. Let's delve **deeper** and see why. Oil **exists** **all over** the world but it's not equally easy to **extract**. In some places like Saudi Arabia, it's really easy to **get oil out** of the **ground**. It **costs** about $2 a barrel to extract. Oil in the U.S. like from Alaska is a lot deeper and getting out cost more, at least $10 per barrel. And producing oil from oil rig like the **Atlantis** **rig** in the **Gulf Coast** is **even** more **expensive**. That rig has to **descend** more than a **mile** **underwater** before **drilling** even begins.

When oil prices are **relatively** low the only suppliers that can **turn a profit** are those who can get to the oil **cheaply**, like Saudi Arabia. As the price goes up, other suppliers in Nigeria, Russia, and Alaska who have higher extraction costs starts to become profitable so they can enter the market. As the price gets higher, even the most expensive extraction techniques become profitable.

***The supply curve slopes upward because the only way the quantity of oil can be increased is to exploit higher and higher cost sources of oil.*** As the price of oil goes up, the **depth** of the oil wells goes down. **With this simple line the supply curve summarizes the way suppliers respond to a change in price including how suppliers will enter and exit the market depending on the price.**

So far we've said things like if the price goes down, buyers will want to buy more or if the price rises suppliers will want to sell more. But we haven't said anything about how prices are **determined**. That's the subject for the next video, Equilibrium. If you want to test yourself, click Practice Questions or if you're ready to **move on**, just click Next Video.

|  |  |  |
| --- | --- | --- |
| **List of new words** | | |
| **S** | **The word** | **Meaning** |
| 1 |  |  |
| 2 |  |  |
| 3 |  |  |
| 4 |  |  |
| 5 |  |  |
| 6 |  |  |
| 7 |  |  |
| 8 |  |  |
| 9 |  |  |
| 10 |  |  |
| 11 |  |  |
| 12 |  |  |
| 13 |  |  |
| 14 |  |  |
| 15 |  |  |
| 16 |  |  |
| 17 |  |  |
| 18 |  |  |
| 19 |  |  |
| 20 |  |  |