

Guided Reading Activity

Supply

Lesson 2 *The Theory of Production*

Review Questions

Directions: Read each main idea and complete the statements below. Refer to your textbook as you write the answers.

A. The Production Function

Main Idea: Companies must determine the most efficient way to produce goods in order to be profitable. Changes in production can improve profits.

1. A production function shows how total _____ changes when one _____
_____ of production changes while others stay the same.
2. In the _____ run, only one variable _____ can be changed to alter supply.
3. The _____ _____ is a production period long enough for the firm to adjust the quantities of all its _____ _____, including capital.
4. The _____ product is the change in output caused by adding one more unit of variable _____.

B. Stages of Production

Main Idea: Businesses adjust the number of workers they employ based on output in the three stages of production.

1. In Stage 1 of production, each additional _____ tends to _____ production.
2. Stage 2 illustrates the principle of _____ returns, where output increases at a diminishing rate as more _____ are added.
3. In Stage 3 of production, adding more workers has a _____ effect on production.

Guided Reading Activity *cont.*

Supply

Summary and Reflection

Directions: Summarize the main ideas of the lesson by answering the questions below.

If you are looking for a job in a factory, at what stage of production should the company be in to be most likely to hire you (and other workers)? What type of manufacturing company would you look for in order to identify one that is most likely to be hiring additional workers?
