

Name \_\_\_\_\_

## Cost Chronicles: The Impact of Production Costs on Supply

### Short Answer Key

1. An increase in the cost of labor might affect the supply of a product by potentially leading businesses to produce less if labor costs rise significantly, which could result in higher prices for consumers.
2. Changes in production costs can impact the prices consumers pay for products because businesses often pass on some or all of the cost increase to consumers through higher prices. When production costs go up, consumers may pay more for the same products.
3. A price war is a situation in which competing businesses lower their prices aggressively to attract customers. It relates to competition and production costs because businesses may reduce prices to maintain or gain market share when facing higher production costs.
4. The elasticity of demand for a product influences how businesses respond to increases in production costs because if demand for a product is highly elastic (responsive to price changes), businesses may be hesitant to raise prices significantly as it could lead to a significant drop in demand. However, if demand is inelastic (less responsive), consumers may continue buying despite higher prices.

