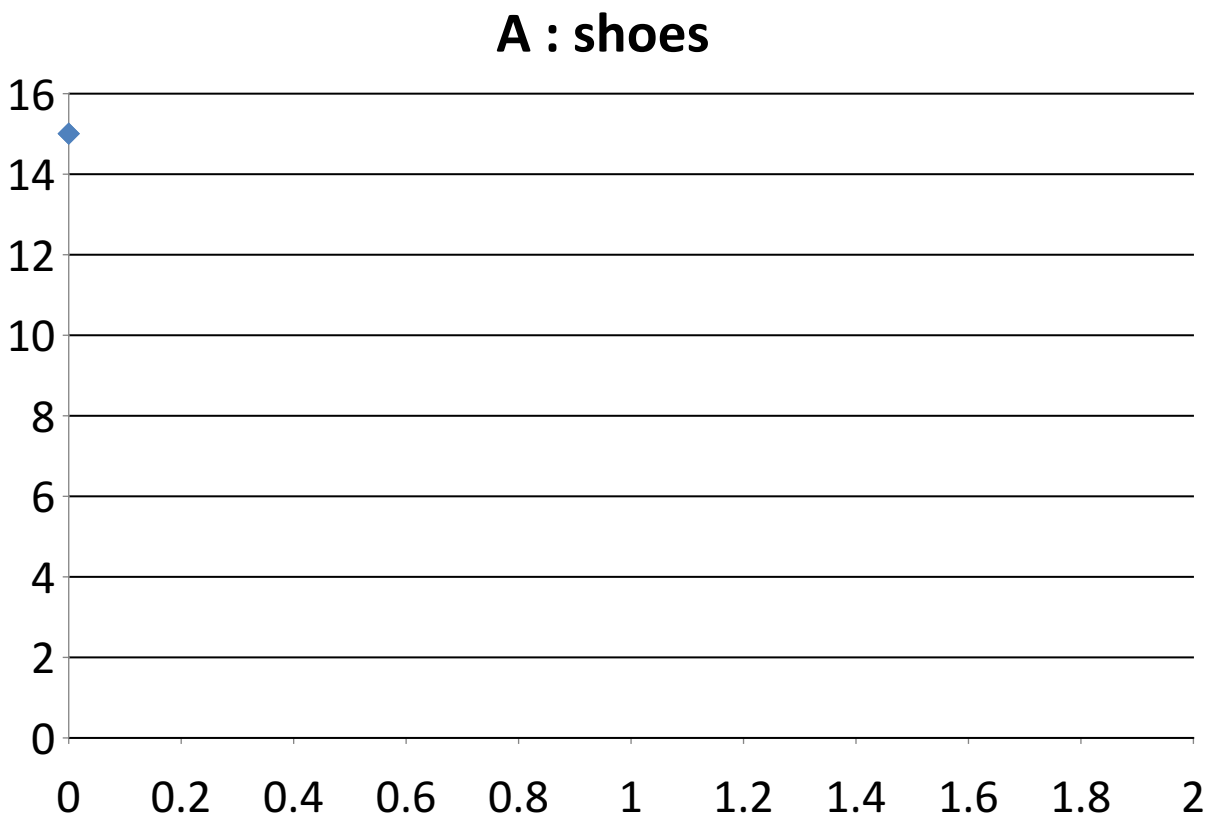
Production Possibilities Curve

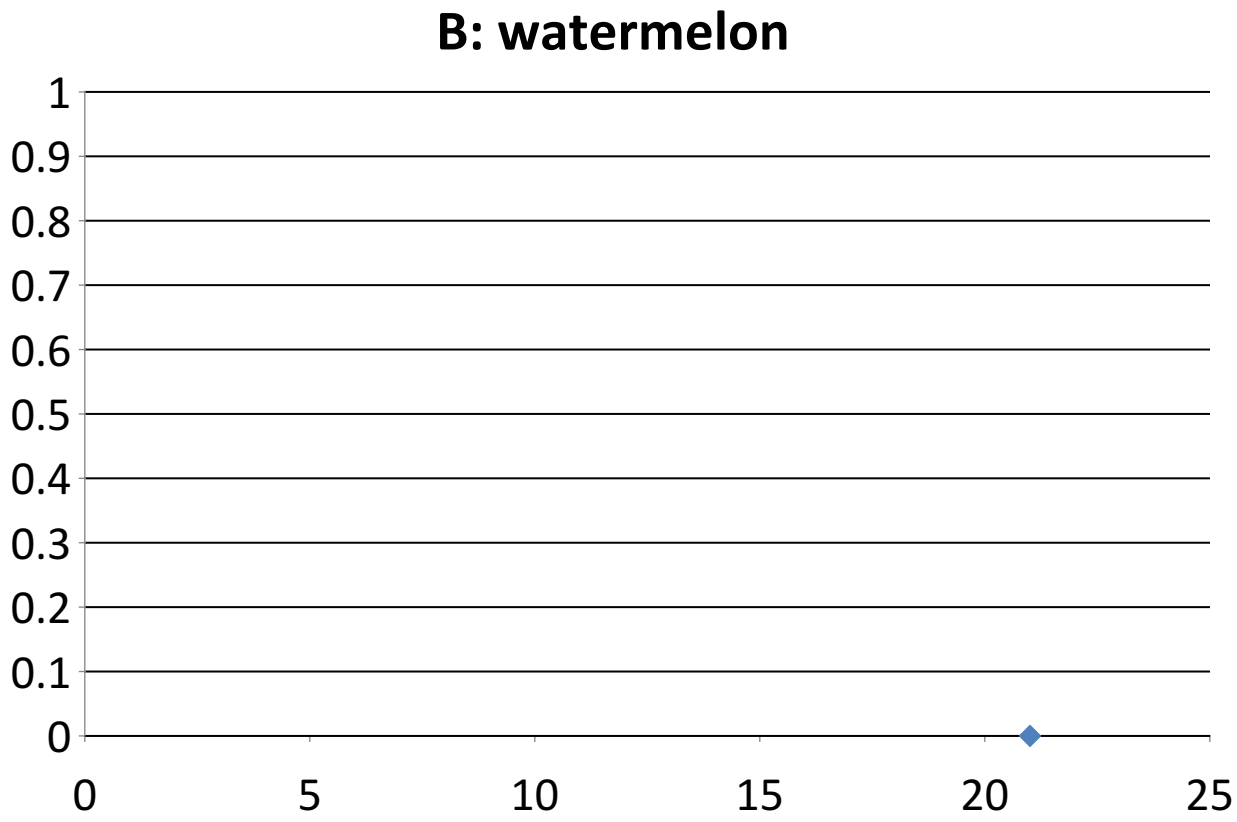
- PPC: shows alternative ways to use an economy's productive resources
- The axes of the graph can show categories of goods and services
  - Ex: farm and factory goods, hats and shoes
  - ****Any 2 types of goods can be shown

- To draw a PPC, must decide which goods and services to examine

- Example: On the vertical axis, the fictional country Capeland could produce 15 million pairs of shoes if it used all of its resources. On the horizontal axis watermelons are represented. Graph B, could produce 21 million tons of watermelon.



(0, 15)



(21, 0)

Chart the following information

	shoes	watermelon
A	15	0
B	10	5
C	6	10
D	4	15
E	2	20
F	0	21

3rd Alternative

- The citizens of Capeland can produce shoes and watermelons. The chart shows 6 different ways that they could use their resources to produce both. Using the data we can plot these on the chart and draw a line to connect the points

- The line is called the Production Possibilities Frontier
  - *It shows the combinations of the production of both shoes and watermelons*

- ANY point on the line represents a point where a country is using all of its resources to produce a maximum combination of the two products
- Each point represents a TRADE-OFF

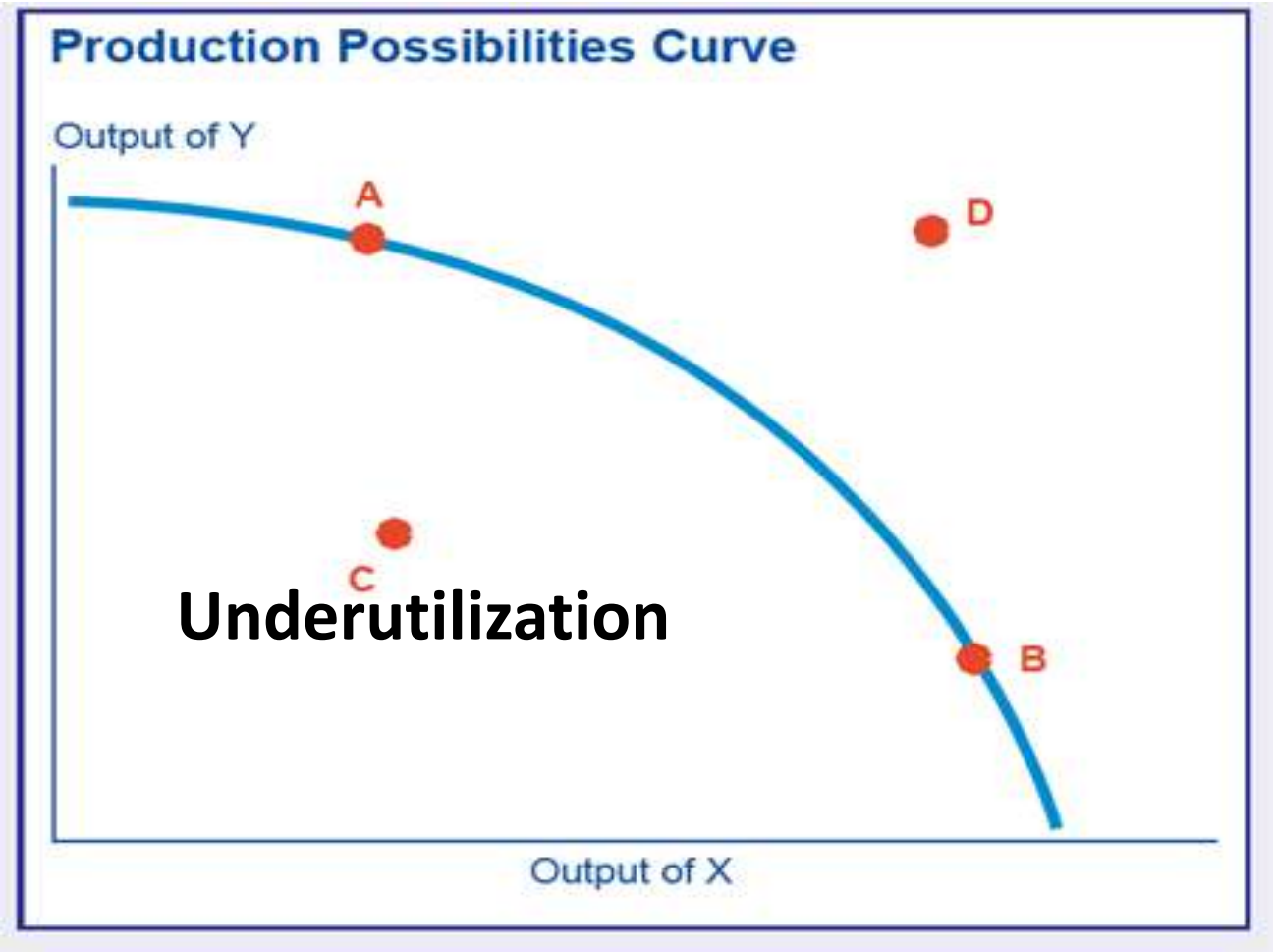
Using the FOP to make one product means fewer resources are left to make something else

A. Efficiency

- Using resources in such a way as to maximize the production or output of g/s
- PPC: represents an economy working at its most efficient levels of production

- Underutilization: economies operating inefficiently—using fewer resources than an economy is capable of using

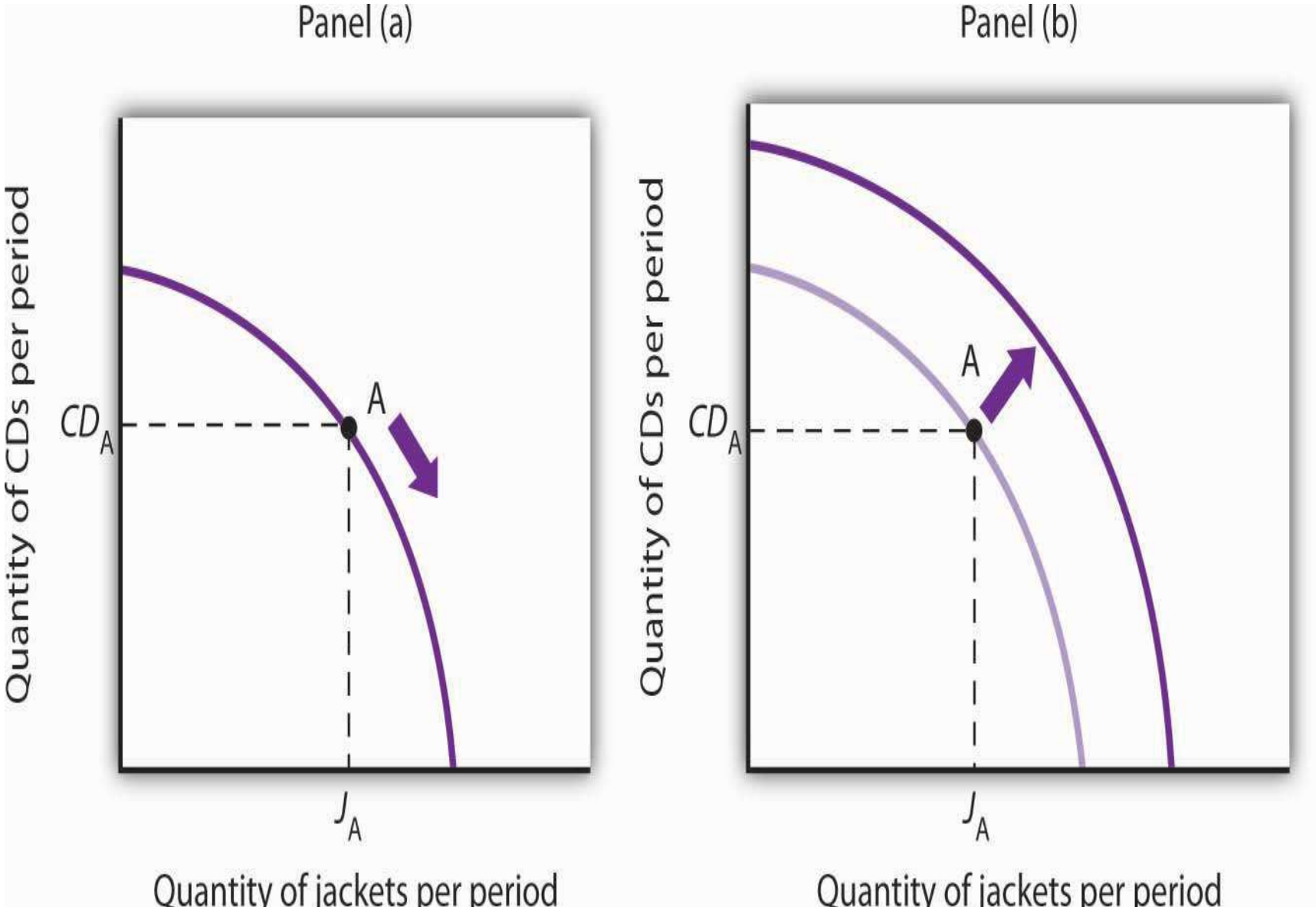
Drawing a point inside the PPF



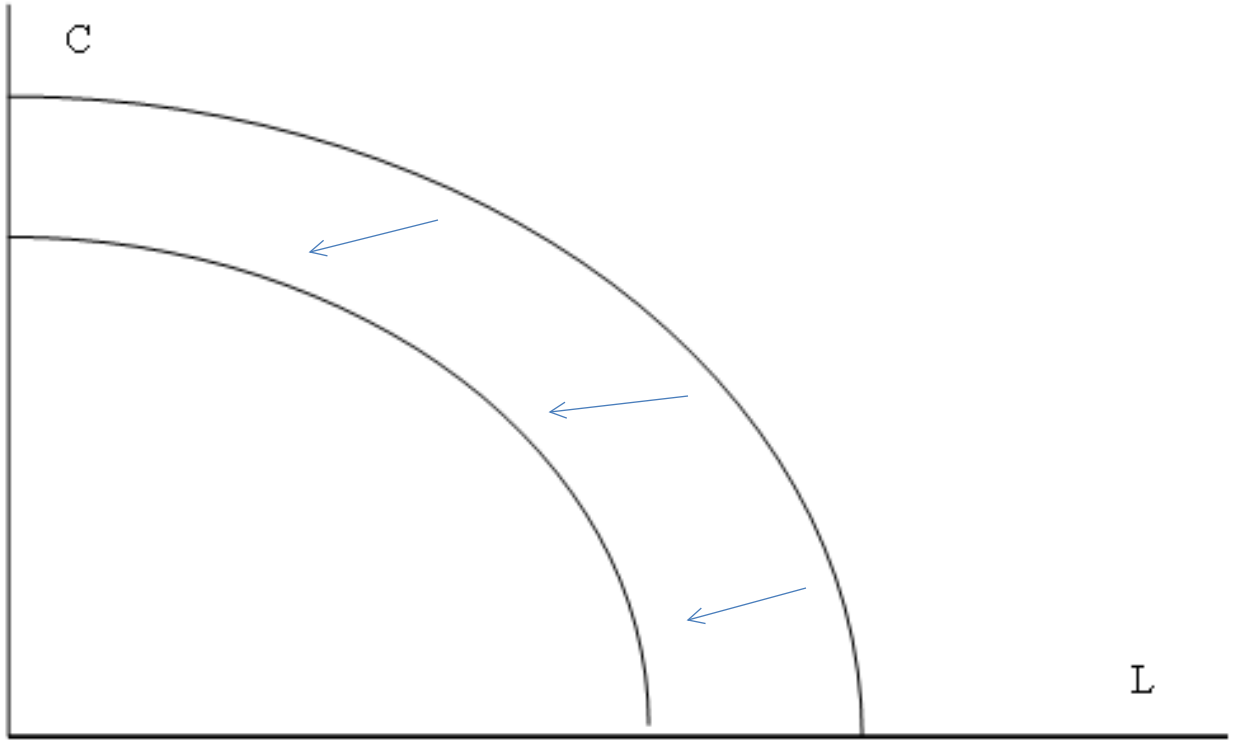
B. Growth

- PPC shows production as if the resources were frozen----constantly changing in real world
- If quantity of quality of land, labor or capital changes, the curve will move!
- Increases in FOP or improvements in technology, shifts curve to the RIGHT
- Decreases in FOP or falls in technology, shifts curve to the LEFT

INCREASE

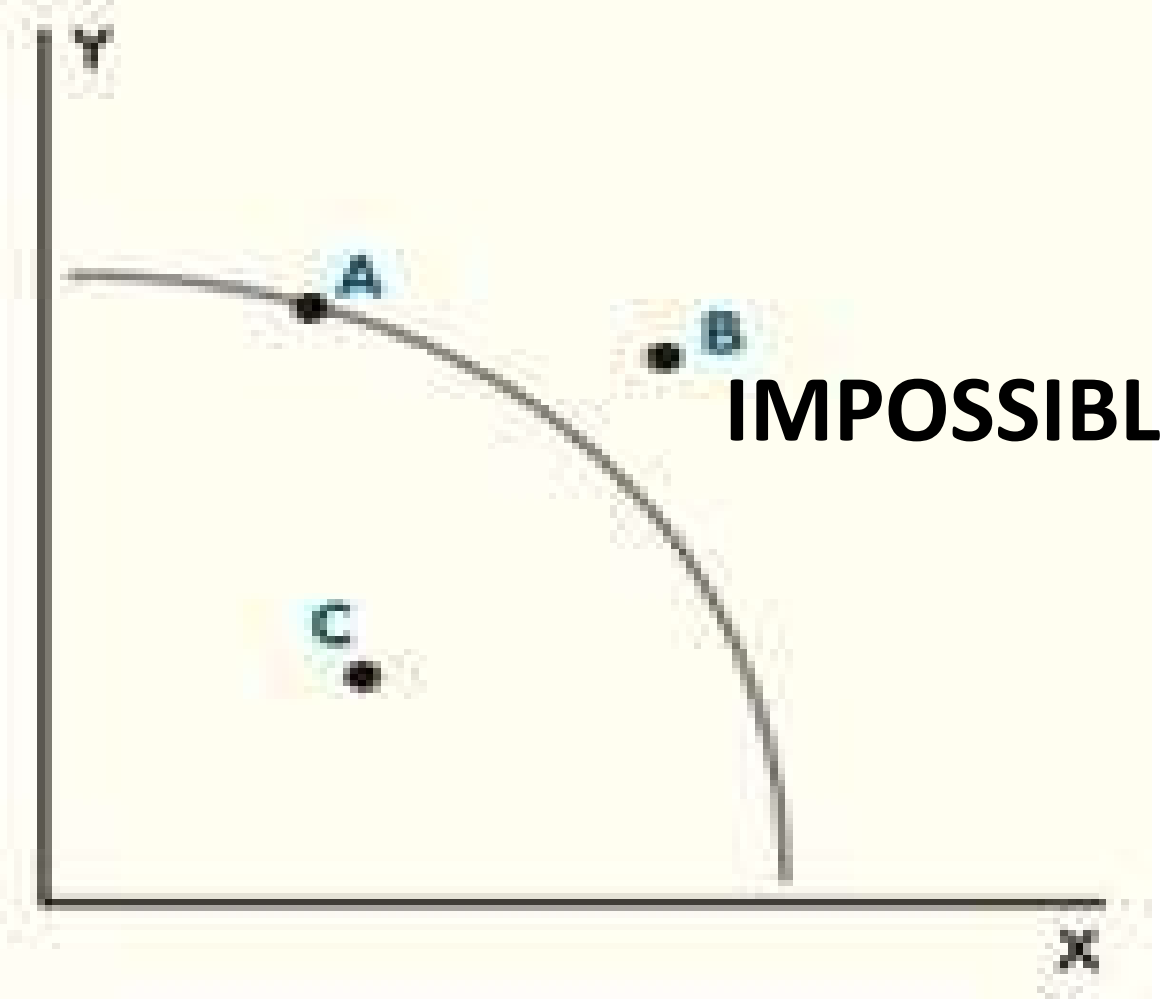

Panel (a)
Panel (b)
Quantity of CDs per period
CD_A
A
J_A
Quantity of jackets per period
Quantity of CDs per period
CD_A
A
J_A
Quantity of jackets per period

DECREASE



The Production Possibilities Curve

Any point above the curve is impossible



IMPOSSIBLE

C. Cost

- Law of increasing cost: as production switches from one item to another more and more resources are necessary to increase production of the second item, therefore opportunity costs increase

What is the opportunity cost of moving from point D to point E?