

Production Possibilities

Unit 1

Trade-offs

- All the alternatives when a choice or decision is made



Opportunity Cost

- The next best alternative that had to be given up for the alternative that was chosen



Opportunity Cost



You study late night
for a final



The next day you
are very sleepy



Your opportunity cost
is a good night's sleep.

- **Options: 1) Study all Night or 2) Go to Sleep**
- **Choice: Study All Night**
- **Opportunity Cost: Getting Enough Sleep**

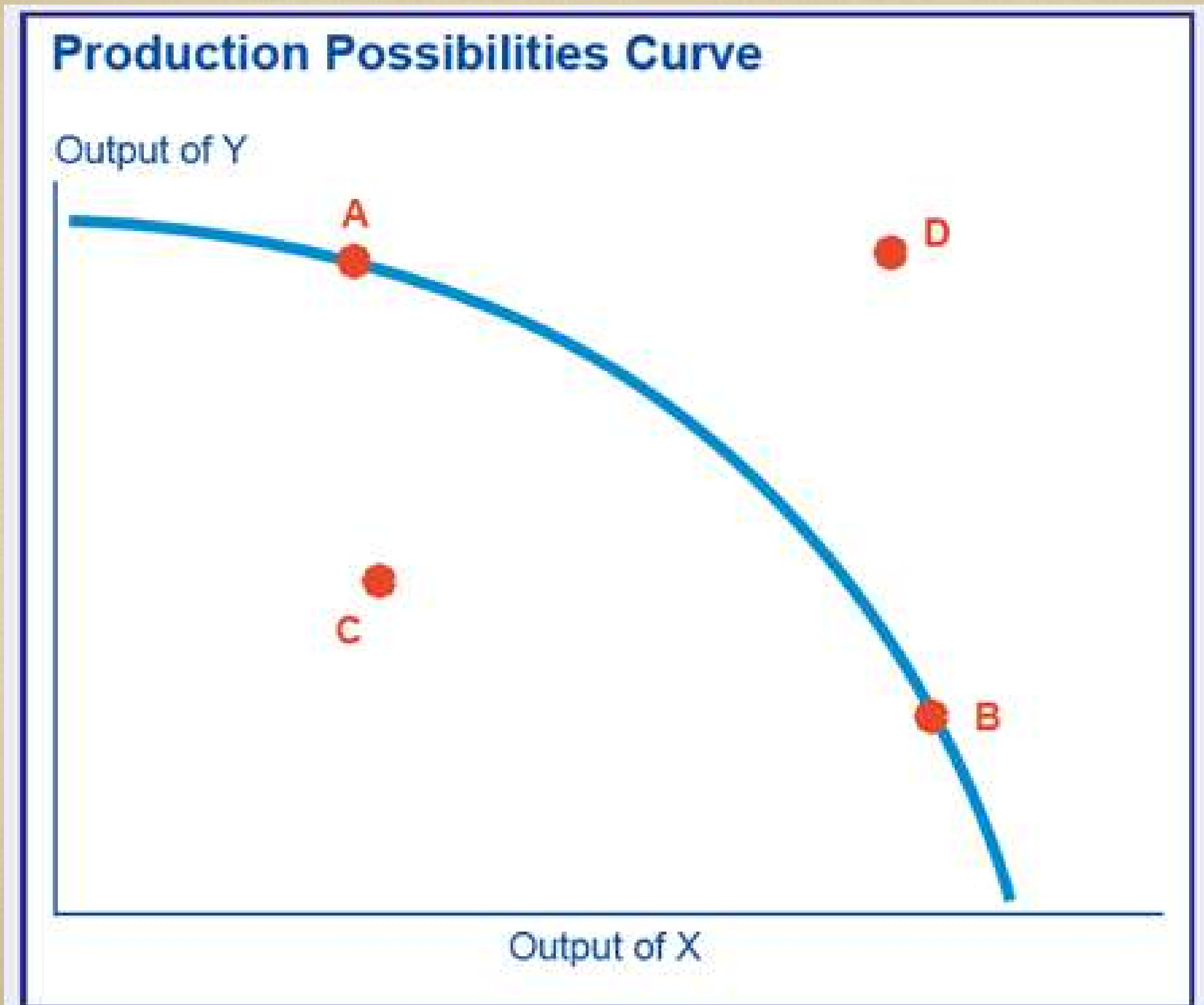
Opportunity Benefit

- What is gained when a decision or choice is made
- Ex) The opportunity benefit of doing your economics homework instead of playing video games is a better grade in economics.

Production possibilities

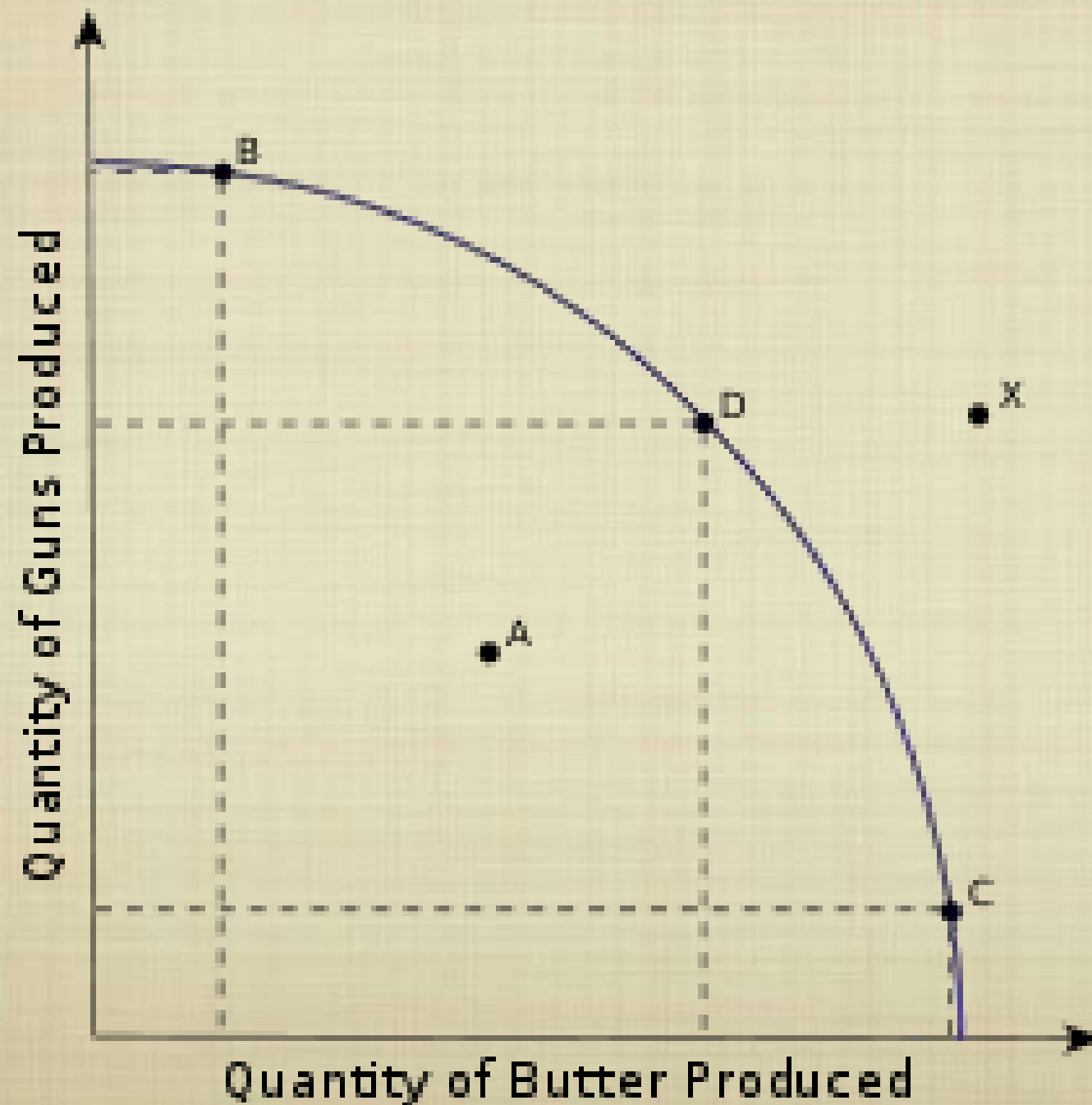
- **The alternative final G&S that can be produced in a given period with all available resources and technology**

Production Possibilities Curve



Production Possibilities: Guns vs Butter

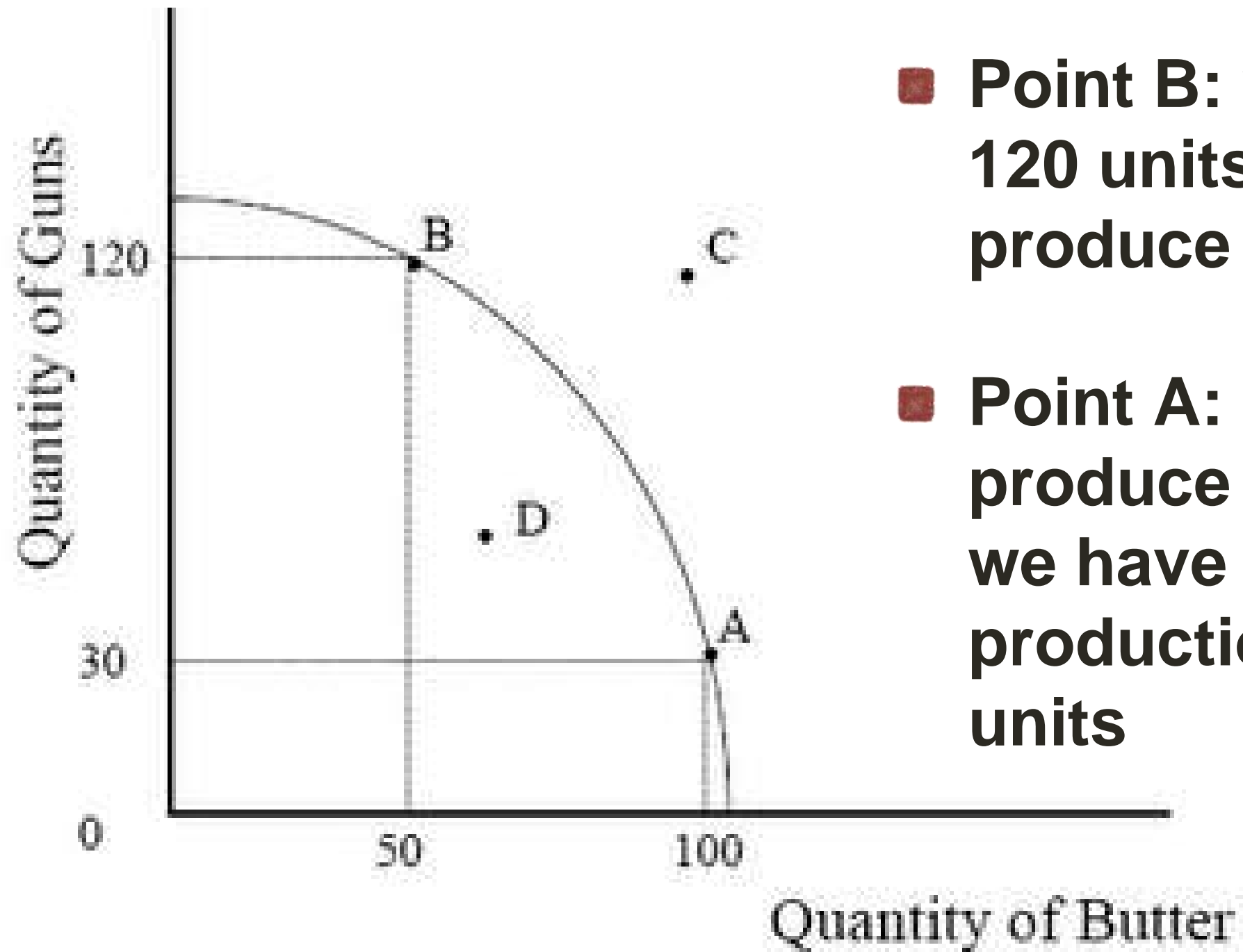
- Defense/military vs consumer goods



Production Possibilities and Opportunity cost

- **There is an opportunity cost if we want more of a certain good**
- **Opportunity Cost: if we increase production on a good, we have to produce less of another**
- **ex) If we want to produce more guns, we have to produce less butter**

PPC: Increasing Opportunity Cost

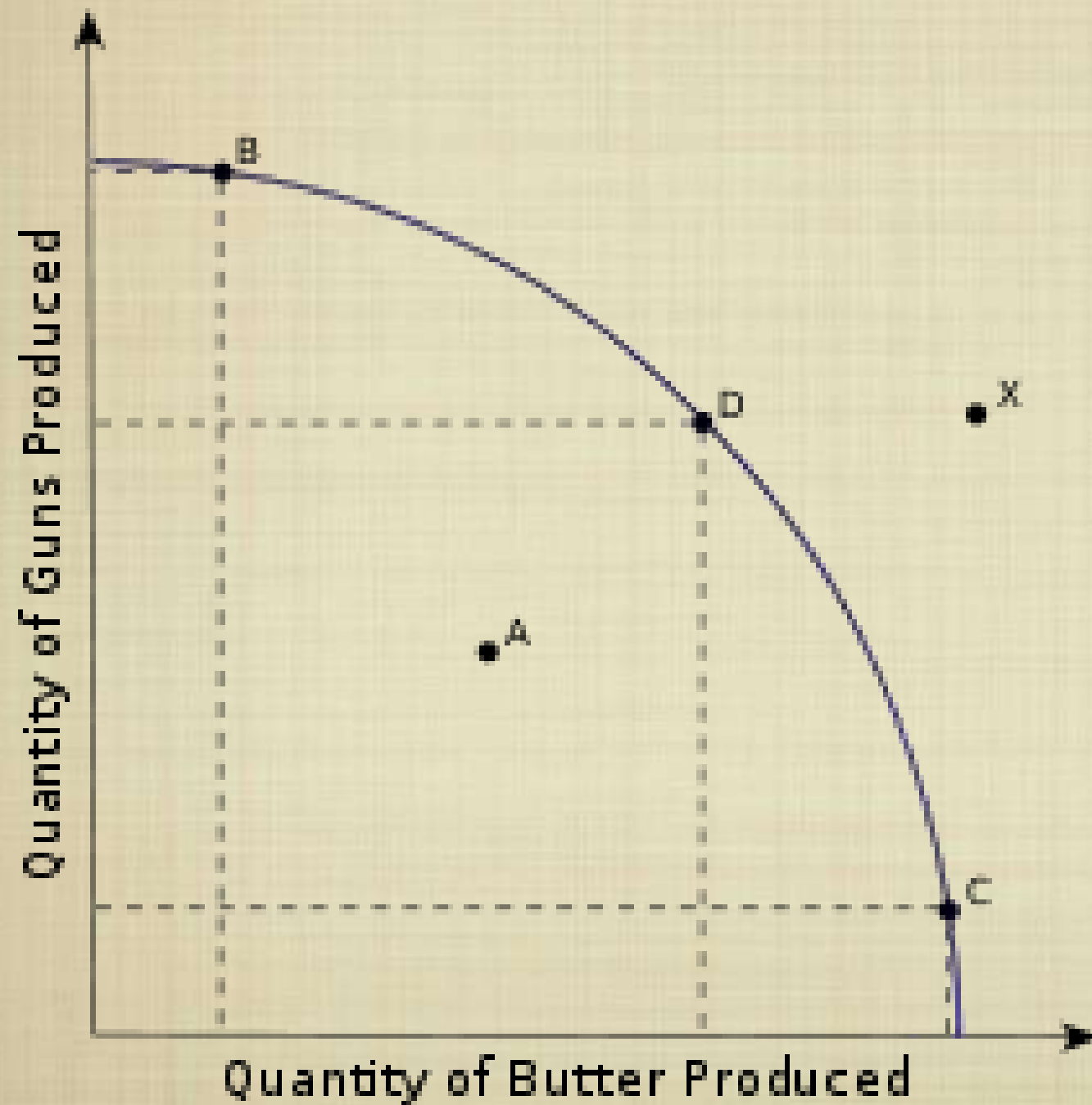


- **Point B:** we can produce 120 units of guns if we produce 50 units of butter
- **Point A:** If we want to produce 100 units of butter, we have to reduce our production of guns to 30 units

PPC: Producing Efficiently

- Producing **efficiently** means producing a quantity represented by a point **on the ppc curve**
- That means that all resources are being used fully and efficiently

PPC: Producing Efficiently

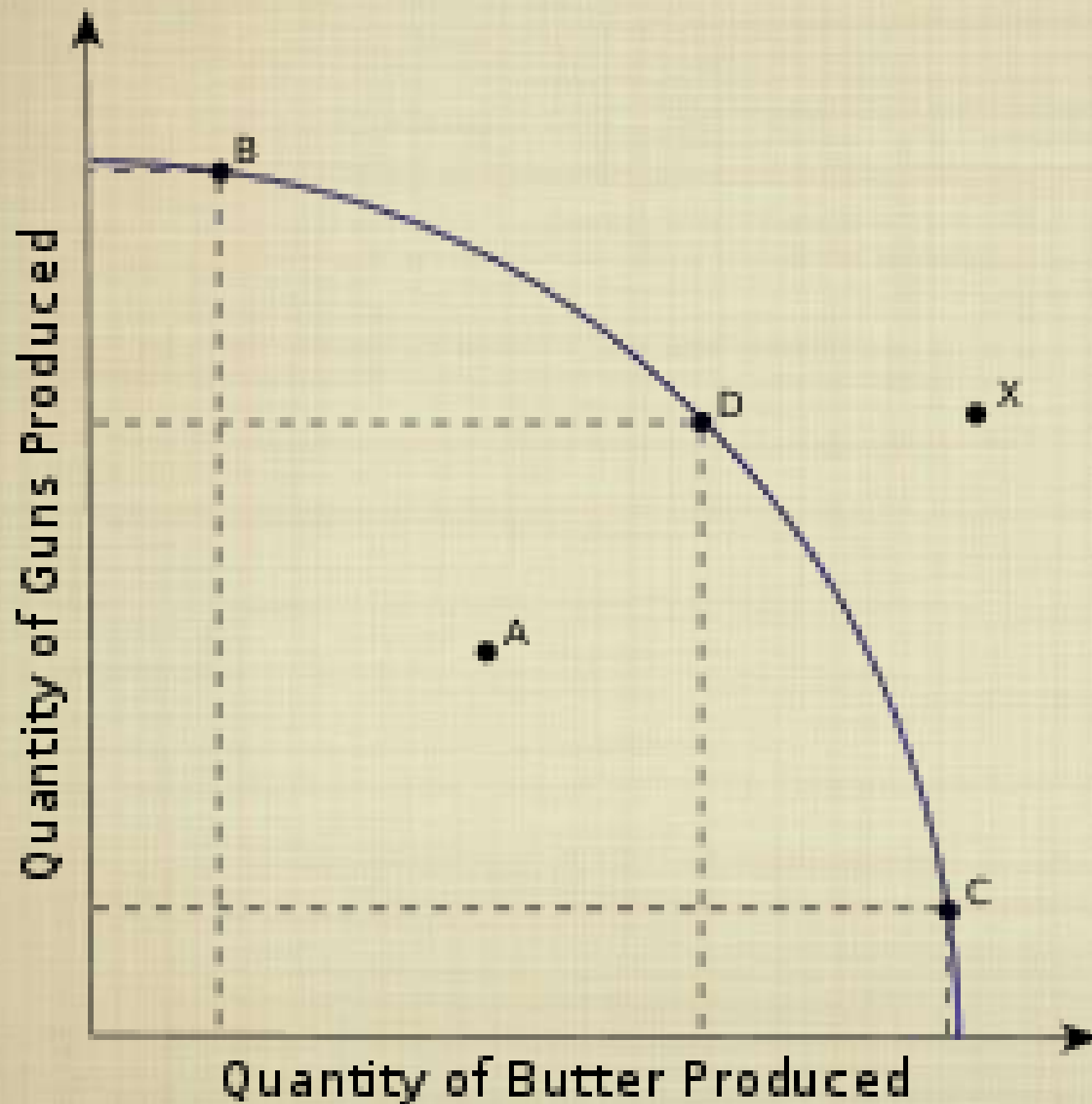


- if a nation were to produce at Points B, C, or D, it would be considered efficient

PPC: Producing Inefficiently

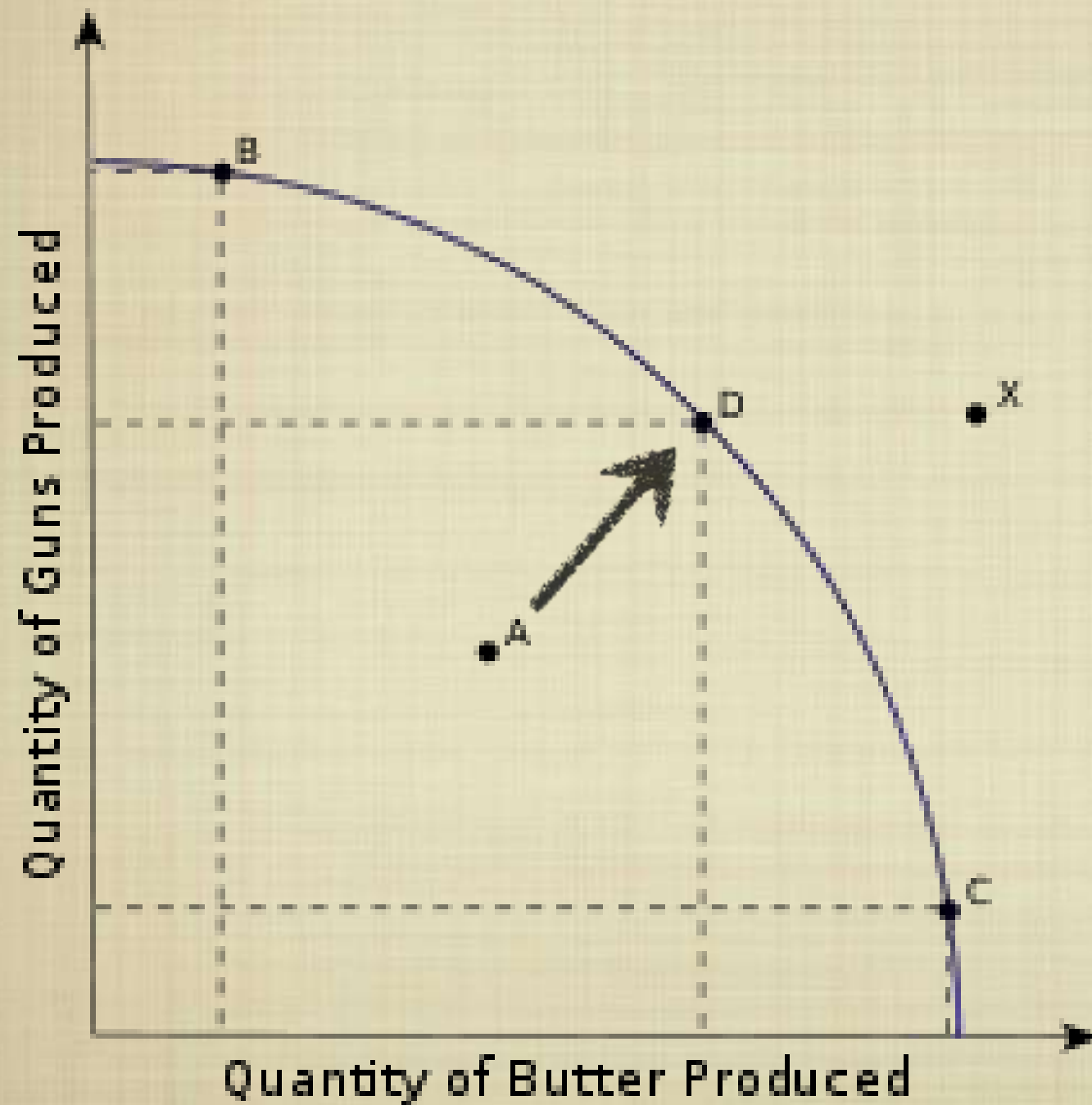
- Producing **Inefficiently** means producing a quantity represented by a point **below full capacity on the curve**
- That means that all resources are not being used fully or efficiently
- We could be producing more

PPC: Producing Inefficiently



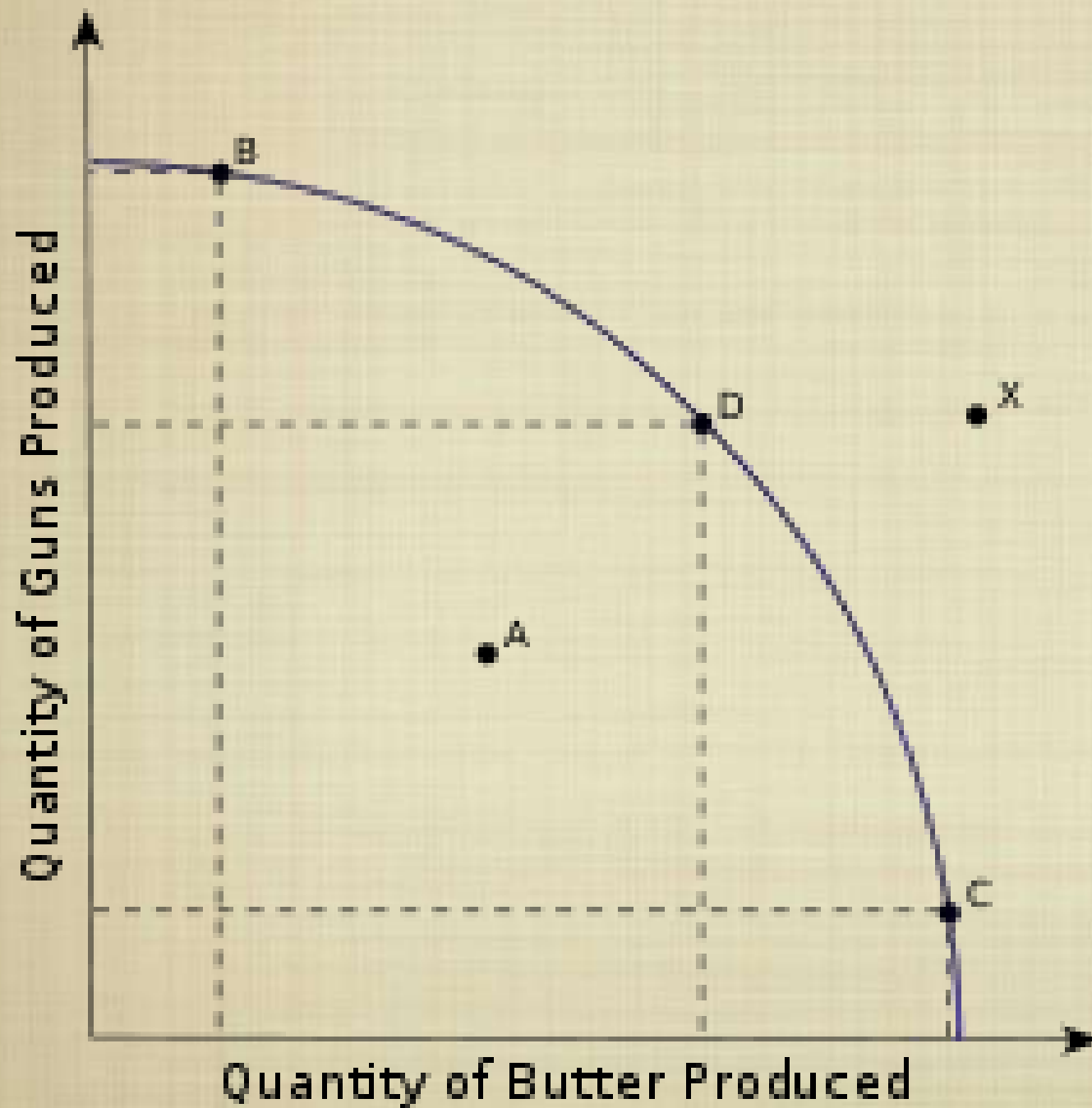
- if a nation were to produce at **Point a**, it would be considered **inefficient**
- Not all resources are being used fully

Movement Toward Efficiency



- Moving from Point A to a point on the curve would mean moving toward efficiency

Producing beyond PPC

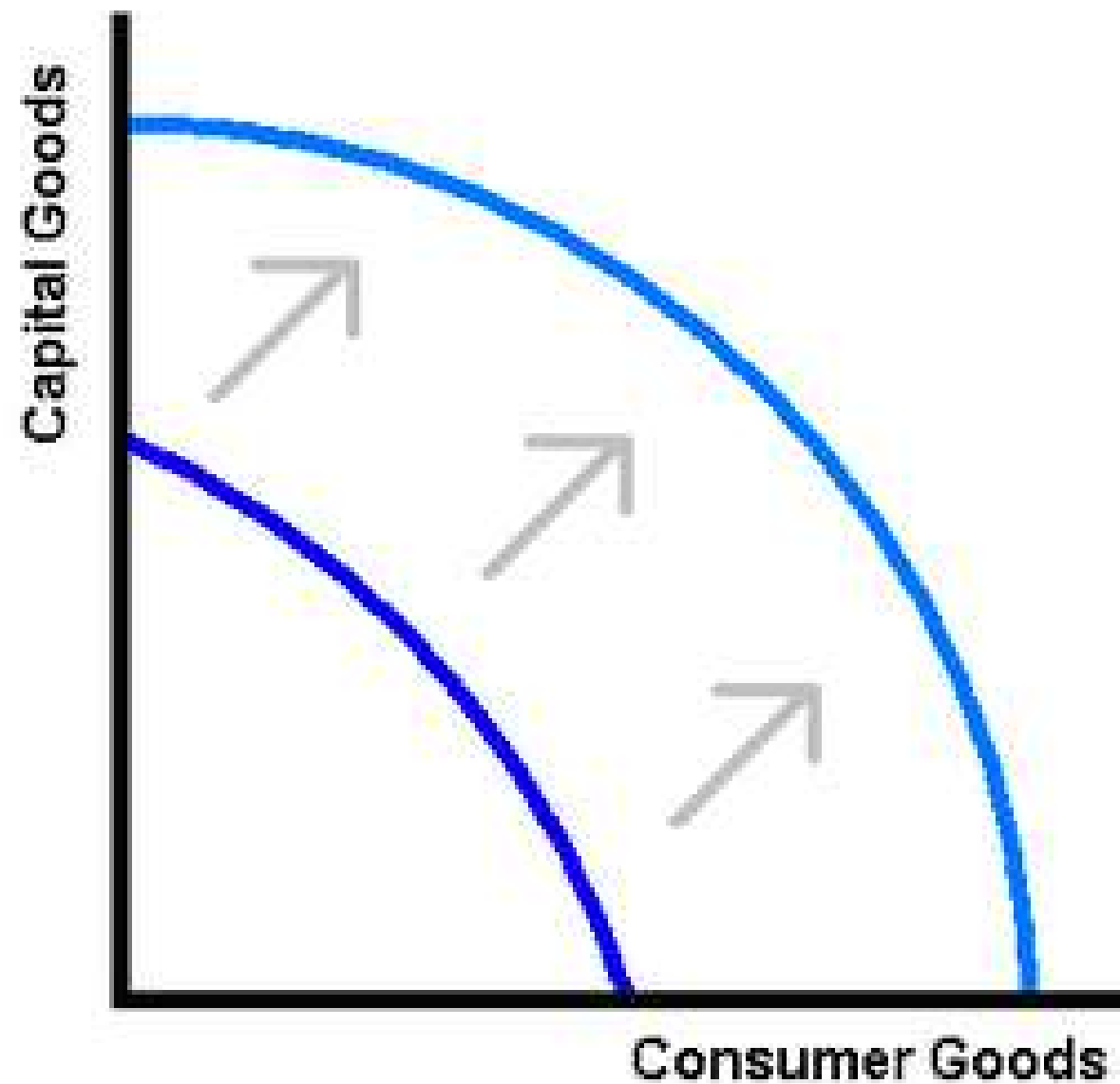


- Producing at **Point X** suggests that we could get more goods than we're currently capable producing

Economic Growth

- We can have economic growth when we can produce beyond the current production possibilities curve
- Usually due to more resources or better technology
- Illustrated by a shift in the entire PPC Curve

Shifts in PPC



- When there is economic growth, the entire PPC shifts outward

Move to Efficiency vs Shifts in PPC

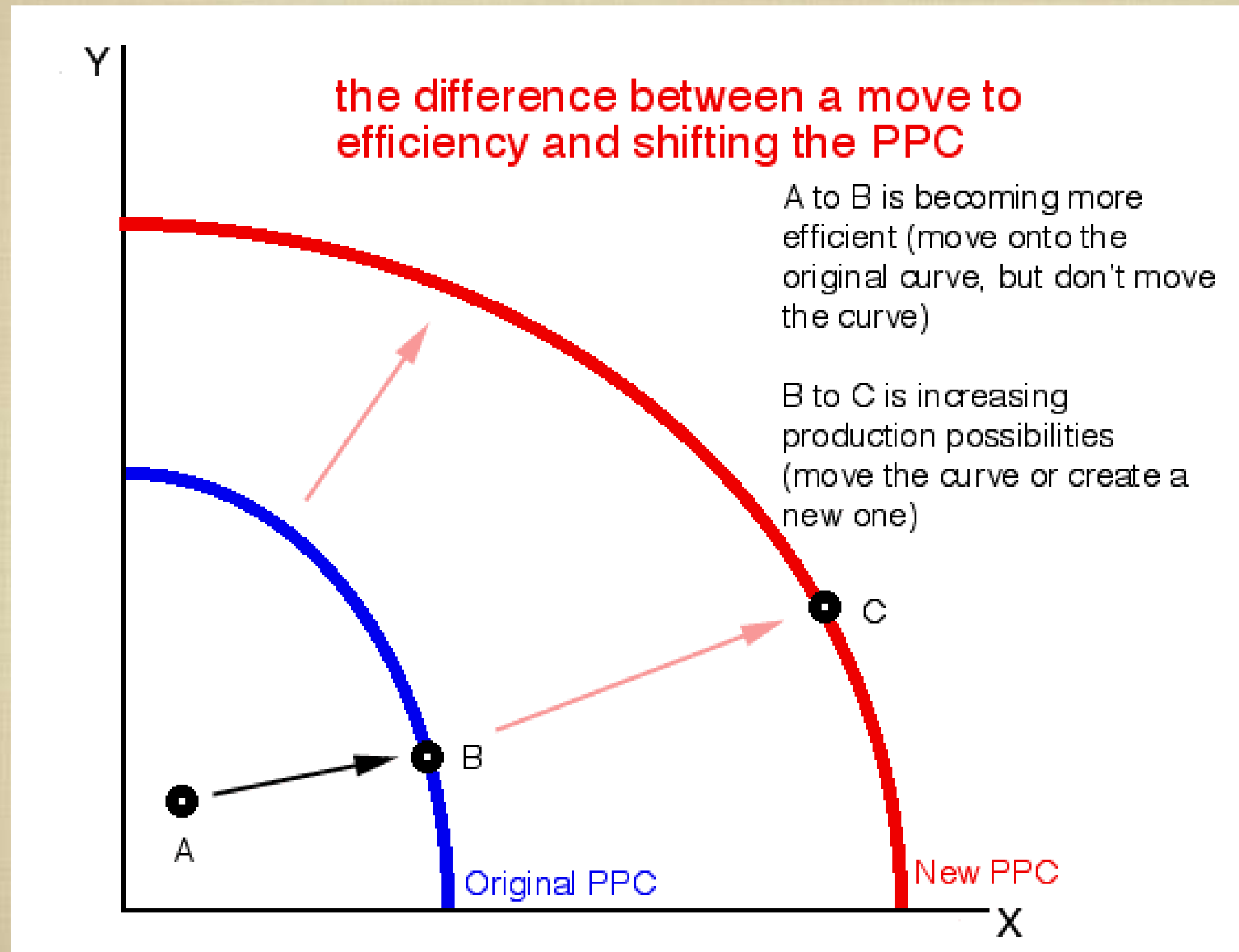
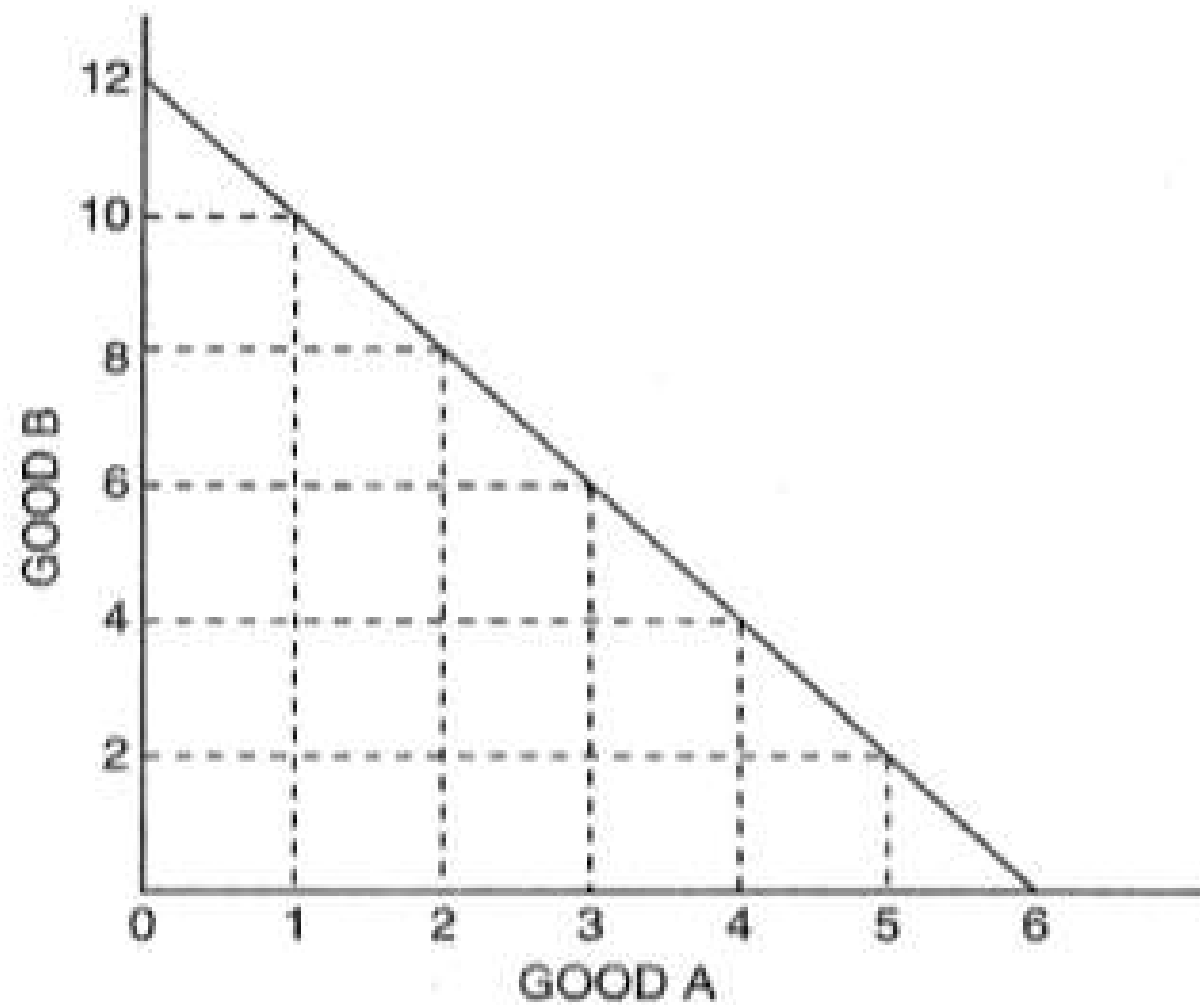


Figure 1.1

Production Possibilities Curve 1



1. If the economy represented by Figure 1.1 is presently producing 12 units of Good B and zero units of Good A:
 - (A) The opportunity cost of increasing production of Good A from zero units to one unit is the loss of _____ unit(s) of Good B.
 - (B) The opportunity cost of increasing production of Good A from one unit to two units is the loss of _____ unit(s) of Good B.
 - (C) The opportunity cost of increasing production of Good A from two units to three units is the loss of _____ unit(s) of Good B.
 - (D) This is an example of (*constant / increasing / decreasing / zero*) opportunity cost per unit for Good A.

Key

- 1.
- (A) 2
- (B) 2
- (C) 2
- (D) Constant