

Key Words

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|---------------------------|---|
| Scarcity | Unlimited wants that cannot be fulfilled by limited resources. |
| Opportunity Cost | Value of the next best alternative forgone when a choice is made. |
| Consumer Goods | Enables customers to derive direct satisfaction. |
| Capital Goods | Used to make consumer goods. |
| Free Goods | Naturally in abundant supply, needing no conscious effort to obtain. <i>eg. air</i> |
| Economic Goods | Consumable item, relatively scarce. |
| Productive Efficiency | Economy produces maximum output for a given amount of inputs. All points on the PPC are productively efficient. |
| Allocative Efficiency | Economy produces optimal amount of goods and services economy desires (depends on focus of economy). Only 1 point on the PPC is allocative efficient. |
| Actual Economic Growth | Rate at which economy grew over the past year. |
| Potential Economic Growth | Increase in productive capacity of economy. |
| Marginalist Principle | States that an economic agent should pursue an activity up to the point $MB=MC$ |

The Productive Possibilities Curve (PPC)

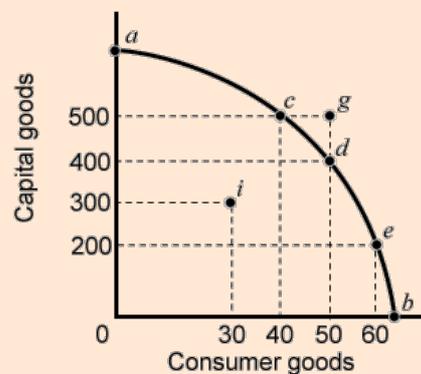
Assumptions of the PPC

1. All available resources are fixed in amount.
2. Within a given period of time, level of technology remains constant.
3. Only 2 goods are being produced.
4. Resources are fully and efficiently employed.

The PPC illustrates 3 concepts:

1. Scarcity
 - Indicated by unattainable combinations (due to limited conditions and lacking state of technology) beyond boundary.
2. Choice
 - Productive and allocative efficiency. ref. to Key Words
3. Opportunity Cost
 - Increasing opportunity cost gives a concave shape.
 - Constant opportunity cost gives a straight, downward sloping line.
 - Decreasing opportunity cost gives a convex shape.

PPC Curve



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