

Key Words

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)

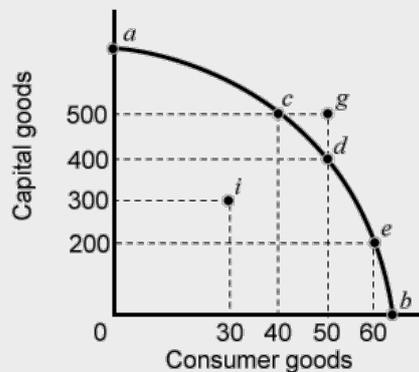
Assumptions of the PPC

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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 Page 1 of 1.

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