Production Possibility Frontier Cheat Sheet

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Efficiency

PPF typically represented by a curve graph

An economy operating on the PPF curve efficient (would be impossible increase production of one good without lowering production of another.

Below the curve = inefficent as resources could be relocated to produce more of both goods

Attainable point	Anything on or within the curve can be attained with current resources
Unattainable point	Anything outside the curve cannot be attained with current reources.
Inefficient points	Inside the curve, because not all resources are being used
Efficent point	On the curve. More of one good can be produced by sacrificing another

Resources

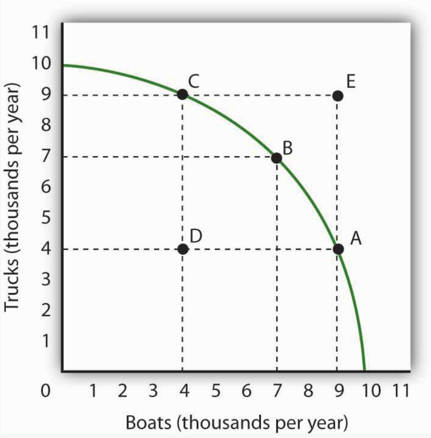
Production possibility changes based on bias of skills and resources

Resources may not be suited to producing the opportunity, therefore losing a higher potential

Resources are finite, not unlimited

By expanding the PPF a firm can produce more. Expand via improved technology, or by bringing on more labour for example

PP Curve



Opportunity cost

Opportunity cost is the highest value alternative which must be given up to engage in an activity

Changes in Op Cost

Increases in op costs	The *Law of Increasing Opportunity Cost* holds that the value of forgone production increases as the quantity of a good increases. The reason for this is resource variability. When all resources are used for one production some are well suited and others are not.

Opportunity cost (cont)

Decreases in op costs	In this case, opportunity cost actually decreases with greater production. While opportunity cost can decrease in limited circumstances, this is unlikely to happen for the economy as a whole.
Remaining constant	The oportunity cost does not change with production, not realistic for whole economy but does happen sometimes.The economy forgoes the same amount of one good while producing more of the other

Four Assumptions

Simplifies economies into one or two goods. Makes it simple to graph. More can be worked out with advanced maths.

Assumes resources do not change.

Assumes the knowledge and information society has for these products is fixed

Assumes technical efficency, that is max production is being reached from inputs

Concepts

The most important economic concepts illustrated using production possibilities analysis are

Opportunity Cost	As more of one good is produced, less of the other goods is produced.
Full Employment	Producing **on** the PPC. All resources **are** engaged in production
Unempl-oyment	Producing **within** the PPC. All resources *are not engaged in production
Economic Growth	Indicated by an outward shift of the PPC.
Investment	Indicated by a tradeoff between the production of consumption goods and capital goods.

Slope

The slope of a line is measured by calculating the change in the value measured on the vertical axis divided by the change in the value measured on the horizontal axis.

Slope = Difference in Vertical (Rise) / Difference in Horizontal (Run)

Slope = Δ Rise / Δ Run