

PRODUCTION POSSIBILITIES CURVE (PPC)
or
Production Possibility Frontier (PPF)

PRODUCTION POSSIBILITIES CURVE (PPC)

DEFINITION:

The PPC shows the various possible combinations of goods produced within a specified time period with all its resources fully and efficiently employed.

PRODUCTION POSSIBILITIES CURVE (PPC) (cont.)

Assumptions:

1. The economy is operating in full employment and full production capacity (**full efficiency**).
2. The amount of resources available are **fixed**.
3. The **state of technology does not change** throughout the production.
4. Resources are **neither unemployed or underemployed**

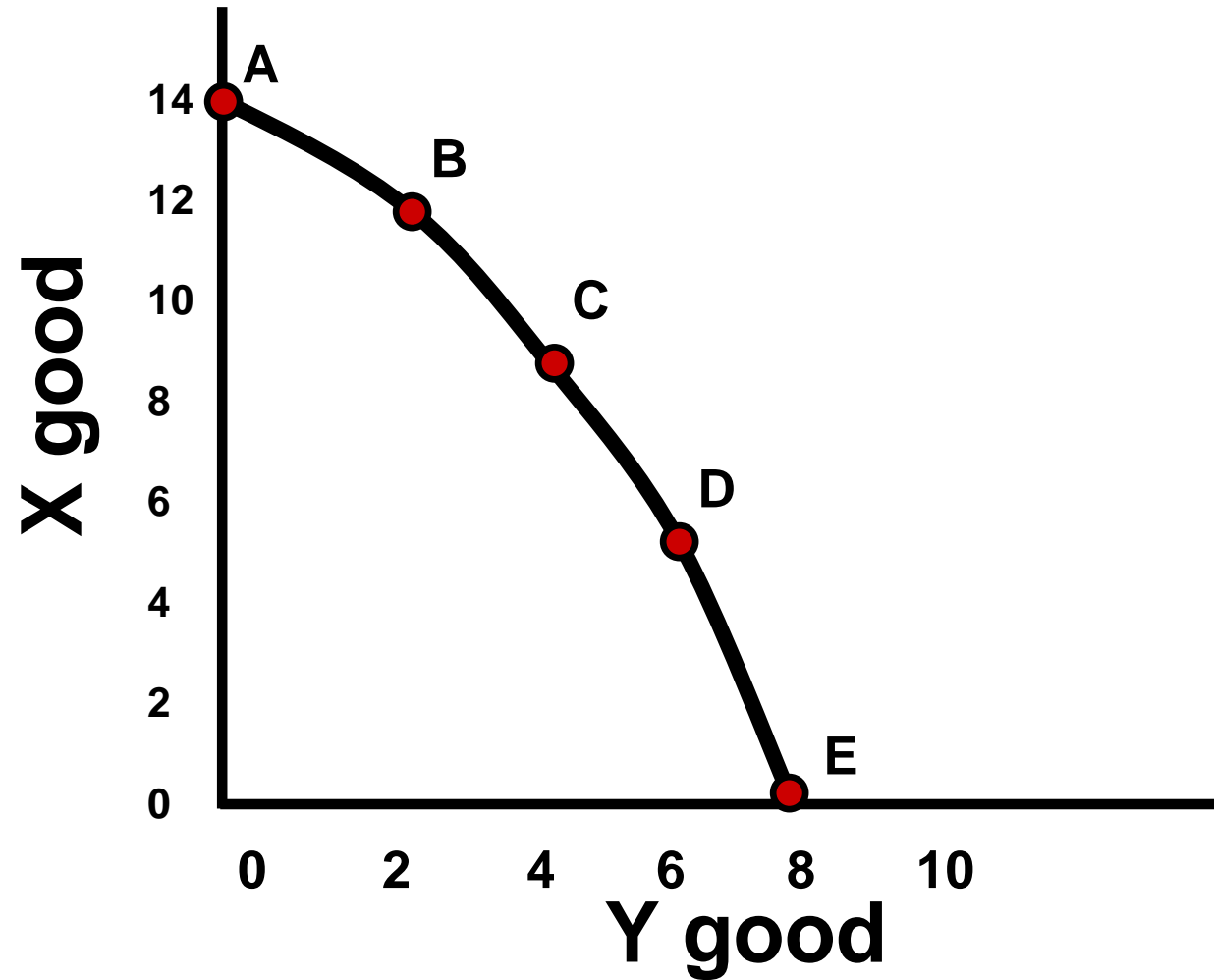
Production “Possibilities” Table

	a	b	c	d	e
X	14	12	9	5	0
Y	0	2	4	6	8

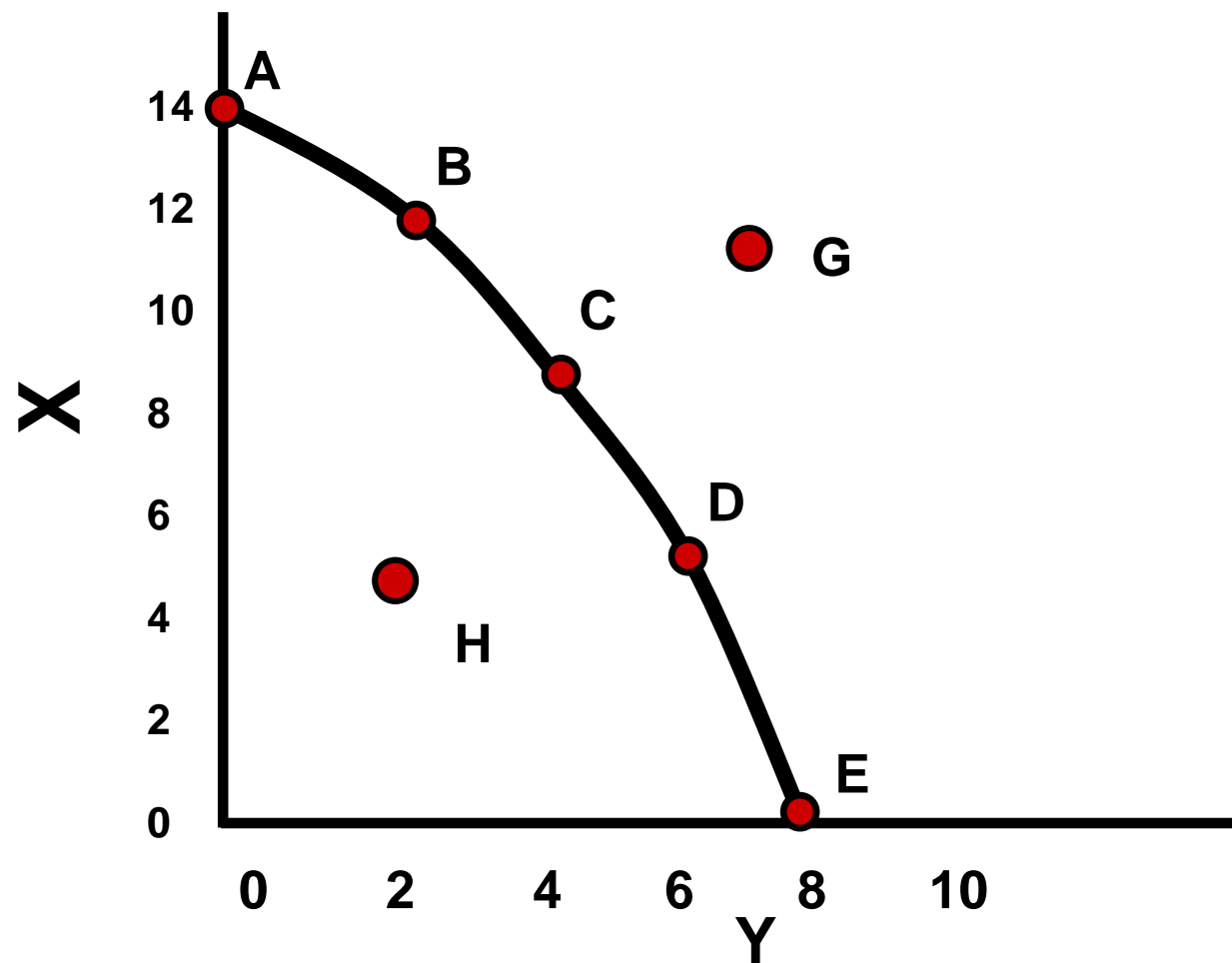
Each point represents a specific combination of goods that can be produced given full employment of resources.

NOW GRAPH IT: Put X good on y-axis and Y good on x-axis

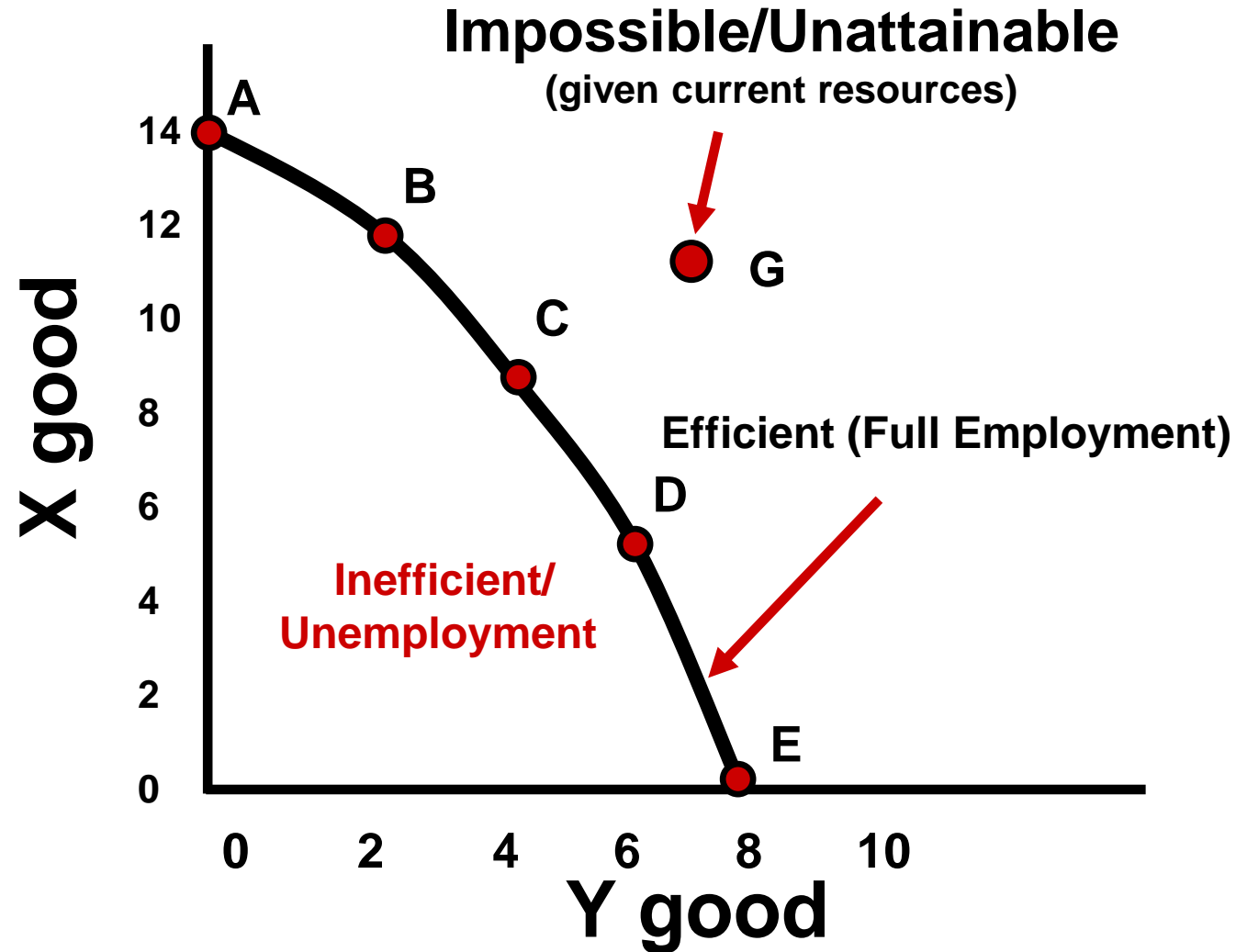
PRODUCTION POSSIBILITIES



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Opportunity Cost

Economists use the term **opportunity cost** to indicate what must be given up to obtain something that's desired

Production “Possibilities” Table

	a	b	c	d	e
Books	0	3	5	8	10
Pens	20	17	14	10	8

Opportunity Cost



Example:

1. The opportunity cost of moving from A to B is... 3 Pens

2. The opportunity cost of moving from B to D is... 7 Pens

3. The opportunity cost of moving from D to B is... 5 Books

4. The opportunity cost of moving from A to C is... 6 Pens

4. The opportunity cost of moving from E to B....

7 Books

Production “Possibilities” Table

	a	b	c	d	e
Z	0	80	110	200	300
P	1120	1000	908	850	700

Opportunity Cost



Example:

1. The opportunity cost of moving from A to B is... 120 P

2. The opportunity cost of moving from B to C is... 92 P

3. The opportunity cost of moving from D to B is... 120 Z

4. The opportunity cost of moving from A to C is... 212 P

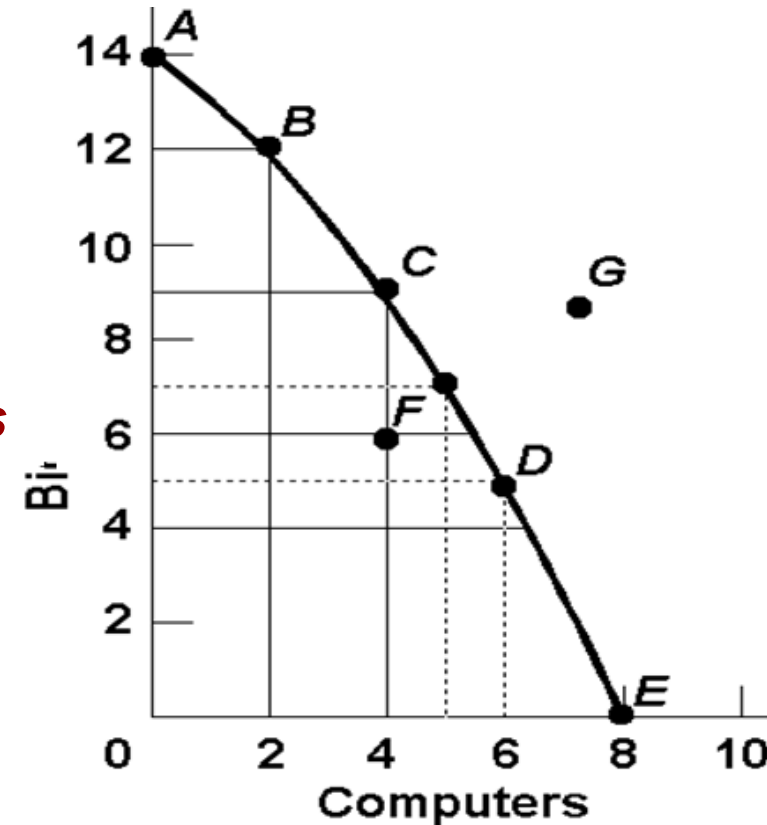
*4. The opportunity cost of moving from E to B....
220 Z*

Opportunity Cost



Example:

1. The opportunity cost of moving from A to B is... **2 Bikes**
2. The opportunity cost of moving from B to D is... **7 Bikes**
3. The opportunity cost of moving from D to B is... **4 Computers**
4. What can you say about point F?
Unemployment
5. What can you say about point G?
Unattainable

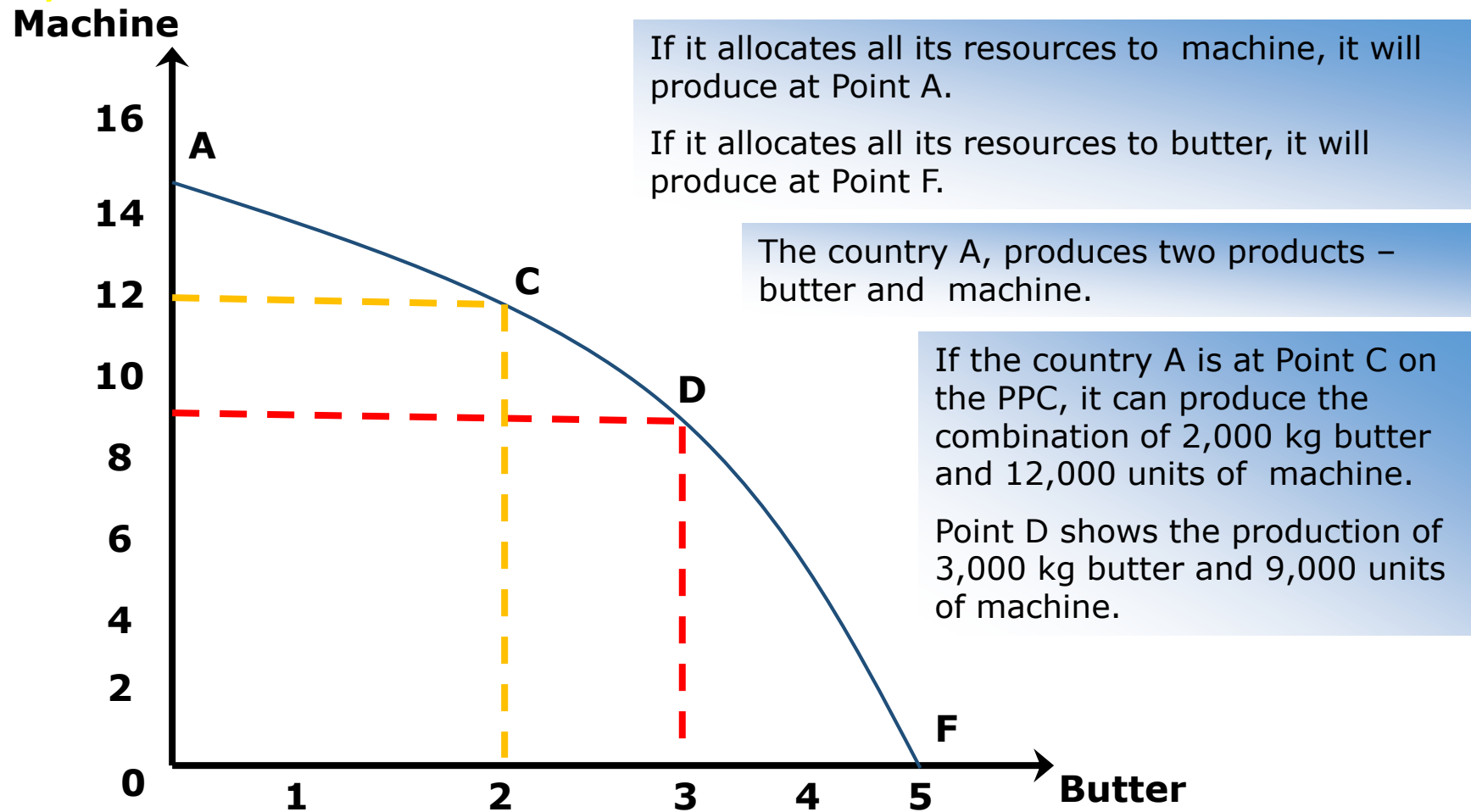


Assignment

PP	A	B	C	D	E
CDs	0	5	10	15	20
TVs	20	18	15	6	0

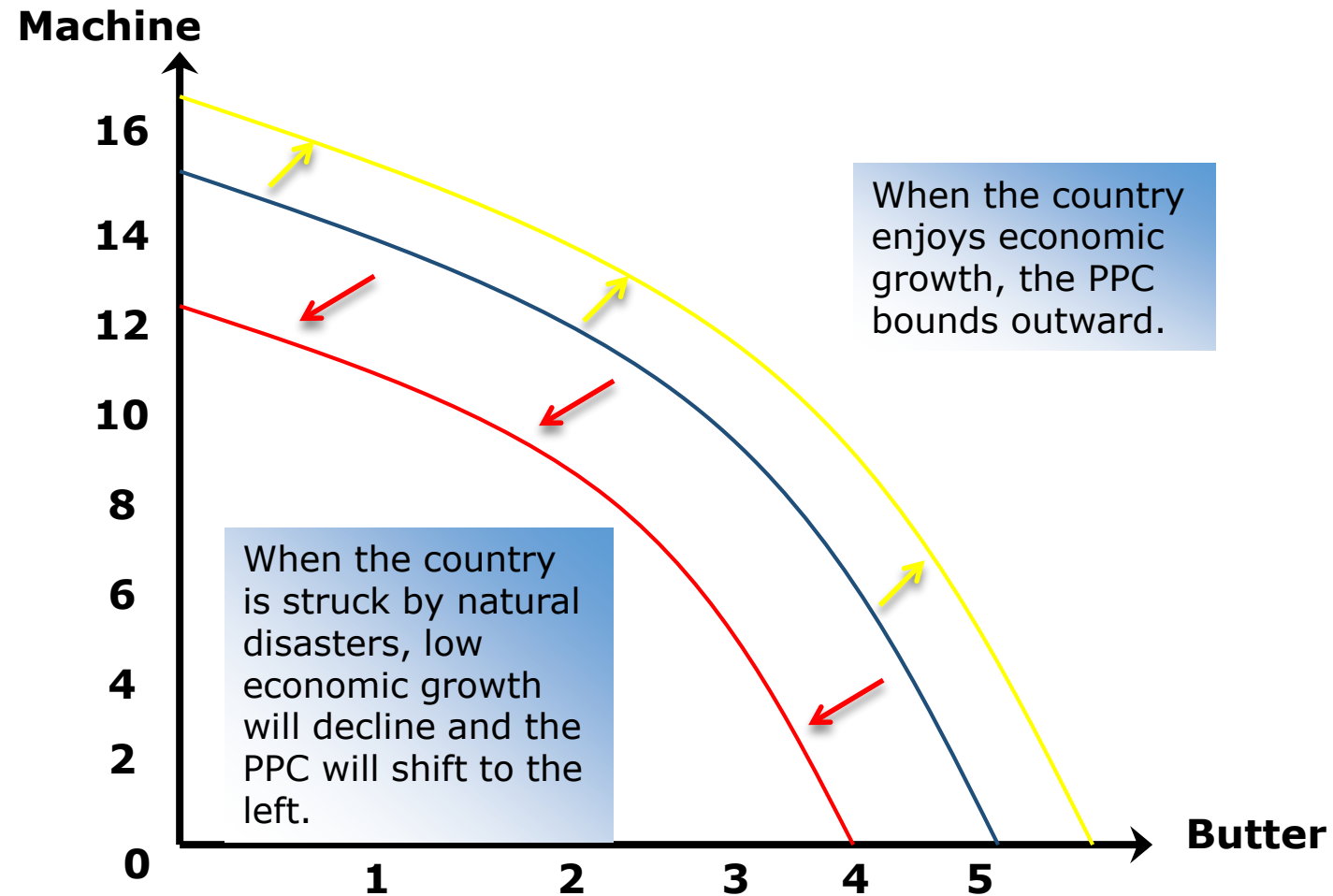
- 1) Opportunity cost of 5 units of CD?
- 2) Opportunity cost 15 units of CDs
- 3) Draw the PPC

PRODUCTION POSSIBILITIES CURVE (PPC) (cont.)

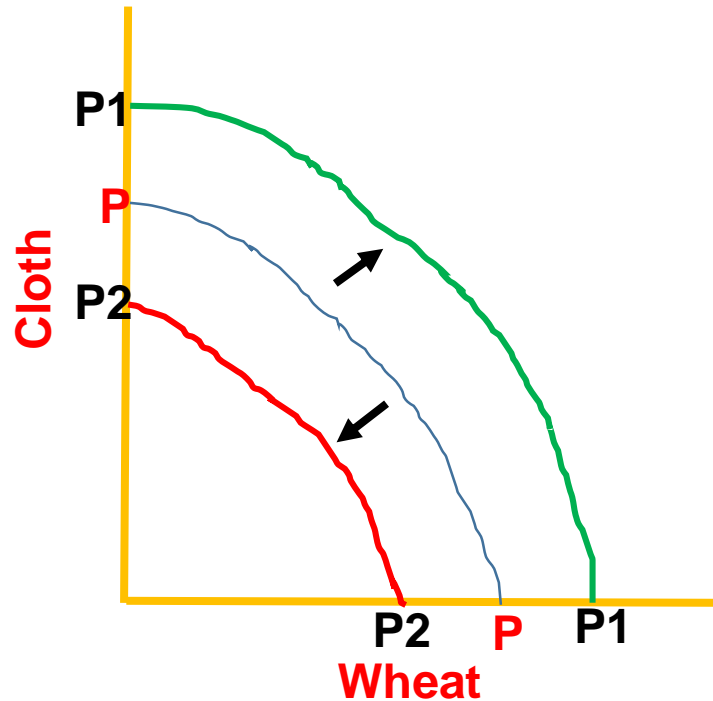


FACTORS THAT INFLUENCE THE SHIFT OF PPC

1. Economic Growth



Economic growth and PPC



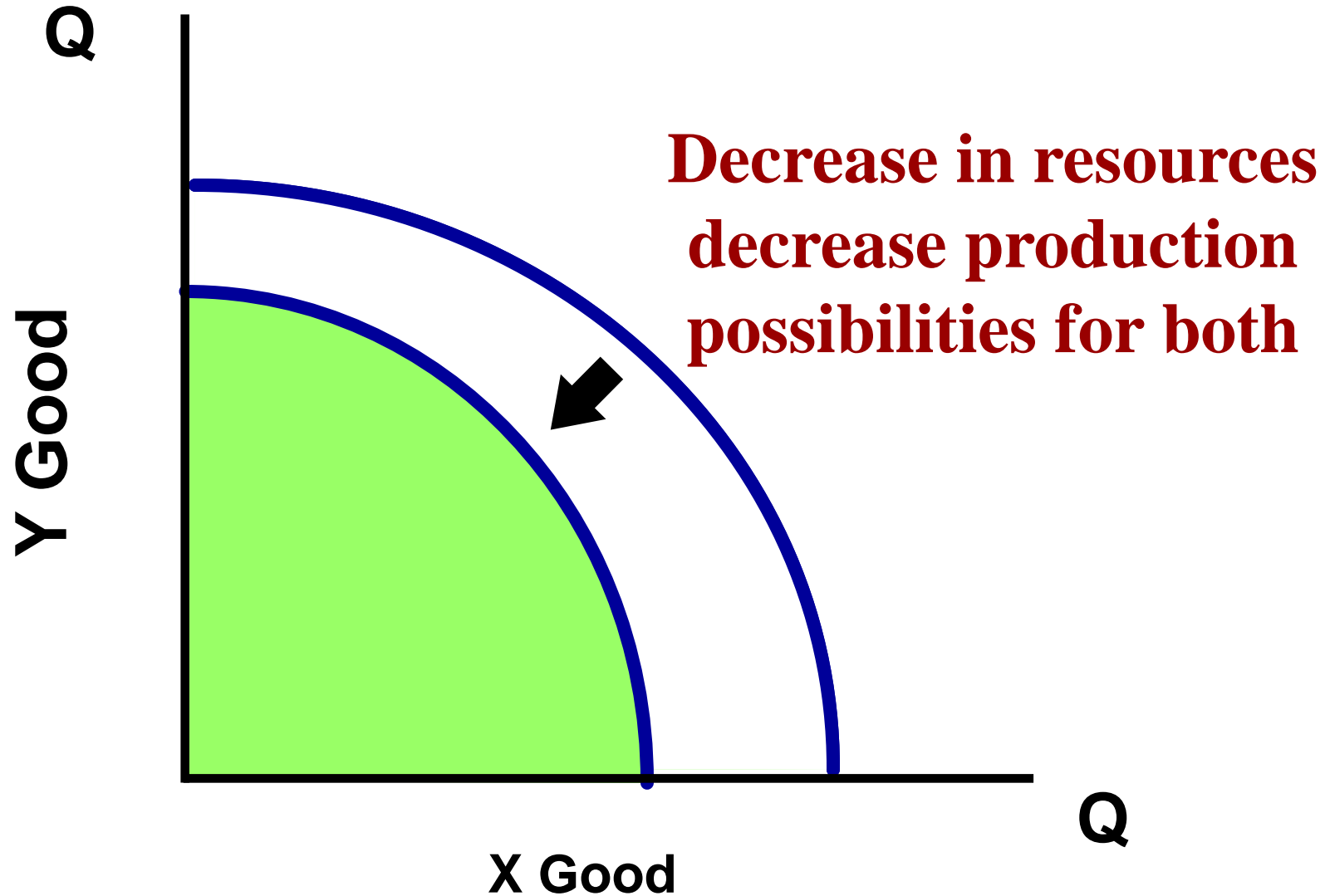
In this graph Growth of an economy is indicated by a right ward shift from PP to P1P1.

This shift is due to improvement in technology, New ways of production are found, Greater savings, investment and capital formation, when skill and efficiency of human resources increases.

A shift towards left from PP to P2P2 as shown in this graph indicates that There is reduction in resources due to natural calamities or war, There prevails unemployment to a large extent. Underutilization of resources.

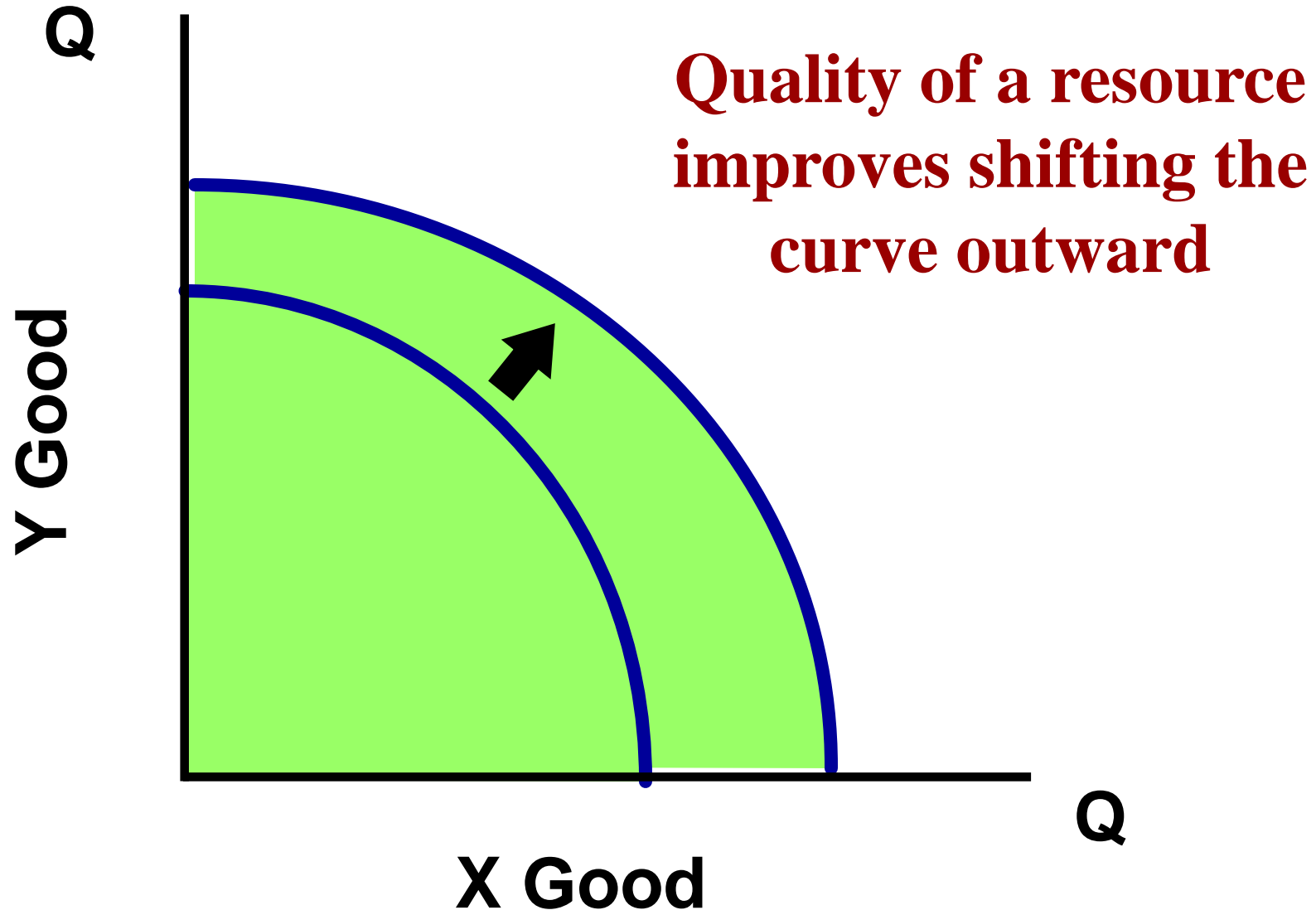
Question #1

BP Oil Spill in the Gulf



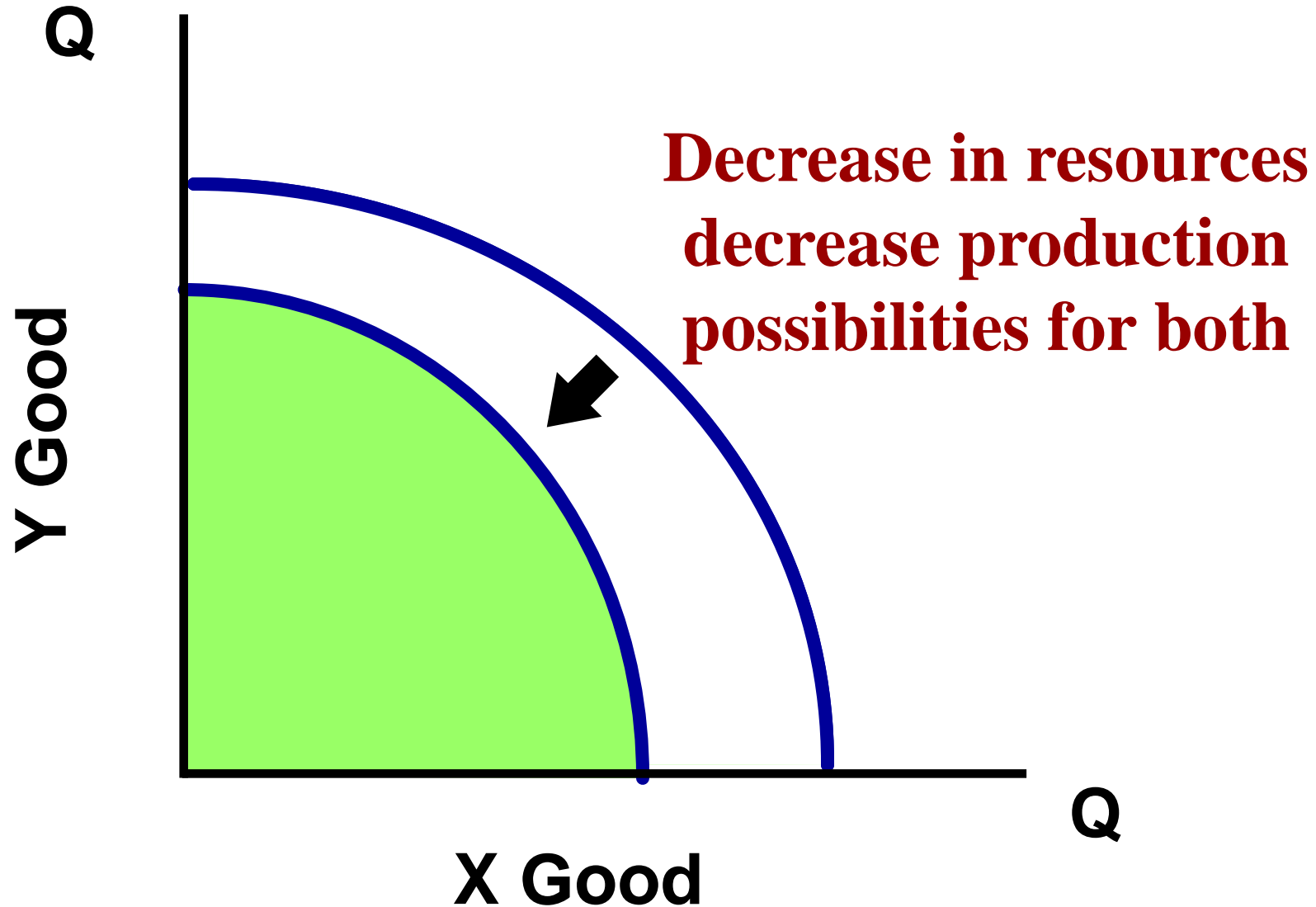
Question #2

Faster Technology



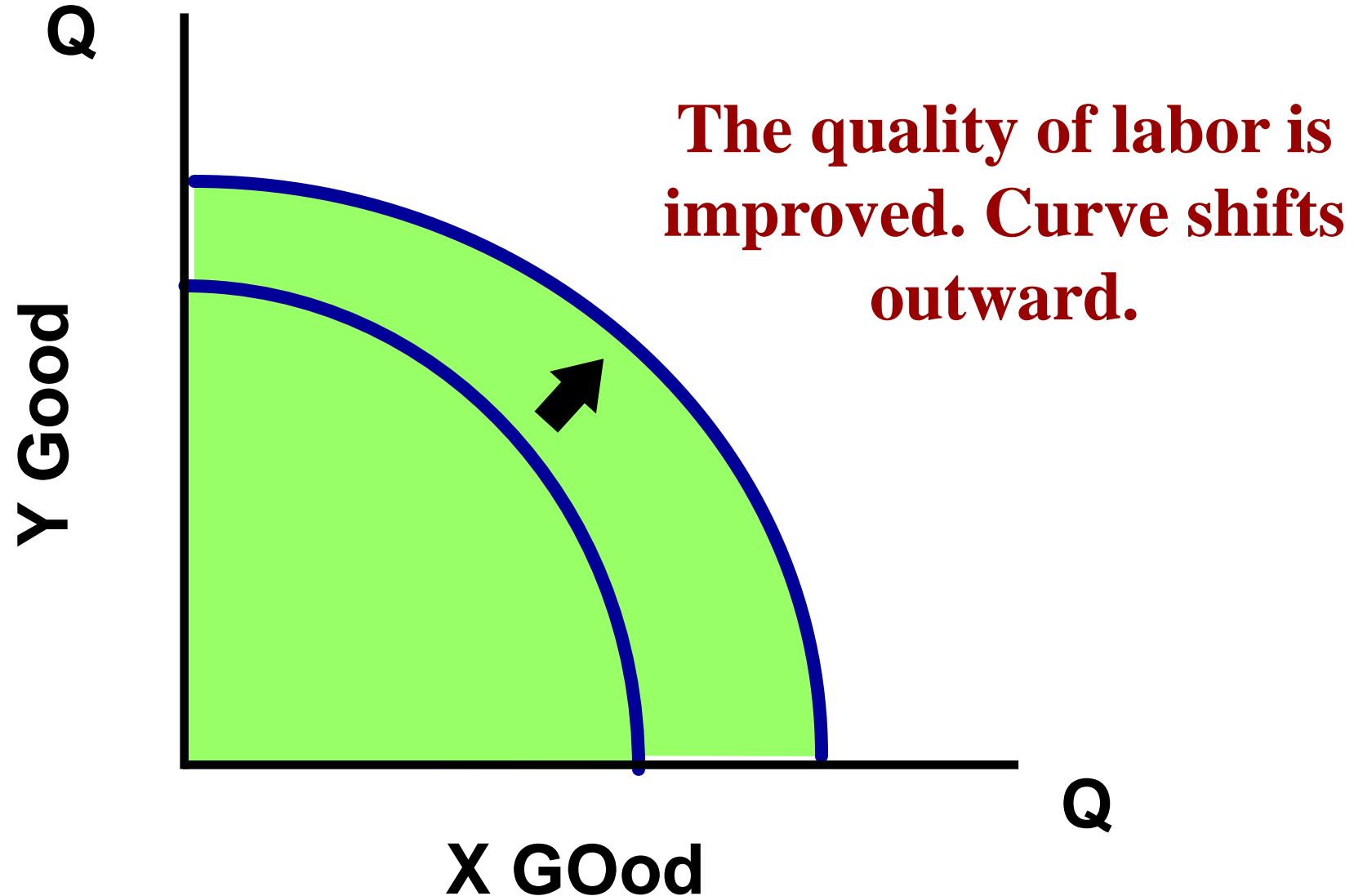
Question #3

Floods in the Kerala



Question #4

Significant increases in education



FACTORS THAT INFLUENCE THE SHIFT OF PPC (cont.)

