FOUNDATIONS OF ECONOMICS UNIT

THE PRODUCTION POSSIBILITIES CURVE

IB CORE CONCEPTS AND NOTES SPECIFICALLY RELATED TO THIS VIDEO

IB Core Concept	Standard Level and High Level Concept
Foundations of IB Economics	• Explain, illustrate, and analyze production possibility curves Source: IB Economics Subject Guide

Production Possibilities Curve (Frontier)

- *Definition: A production possibilities curve (PPC) shows the maximum combinations of goods and services that can be produced by an economy in a given time period, if all resources in the economy are being used fully and efficiently and the state of technology is fixed.*
- It can be used to show the concepts of *scarcity*, *choice*, and *opportunity cost.*
- This is known as *potential output*.
- **The Production Possibilities Curve**

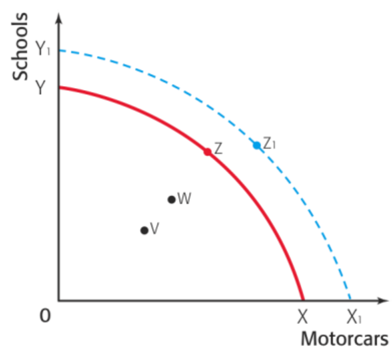

Figure 1.1 A production possibilities curve

- ***Example: Schools and Motorcars***
  (SOURCE: Jocelyn Blink and Ian Dorton. IB Economics: Course Companion, Second Edition, pg. 6.)
  - There must be a trade-off—an opportunity cost—made for every motorcar built.
  - The opportunity costs would be one school.
- ***Inside the PPC (points V and W):*** It is possible to produce at any point inside the PPC, but it means that not all factors of production in the economy are being used or that they are being used inefficiently.
  - In reality, all economies are producing inside their PPC, since there are always some unemployed factors of production.

- ***Outside the PPC (point Z_1)***: Not possible—it is not possible or unobtainable for an economy to work outside its PPC.

- Solution: shift the PPC outwards.

- ***Outward Shift of PPC:*** An outward shift of the PPC can be achieved if there is an improvement in the quantity and/or quality of factors of production.
    - If this shift is achieved, there is an increase in *potential output* but this does not necessarily mean that there is an increase in *actual output*.
    - This would require a movement of the current point of actual output towards the PPC.

- ***Inward Shift of PPC:*** A fall in the quantity of factors of production would cause the PPC to shift inwards.
    - This might be because of natural disasters or war. This is generally rare.

Source: Jocelyn Blink and Ian Dorton. IB Economics: Course Companion, Second Edition.