Production Possibilities Model:

This model is intended to illustrate the basic economic problem of scarcity: in other words, society's desire for goods and services is unlimited while the resources we have to produce them are limited.

The decision to produce a particular good necessarily sacrifices an alternative good that could have been made from the same resources.

Opportunity cost: the value of the next best alternative.

Assumptions:

Limited productive resources.

Constant level of technology.

Only two goods: Consumer, and capital.

Following order:

Consumer, Capital

10, 0

9, 1

7, 2

4, 3

0, 4