**Assignment:6** (0 marks – no reference to the diagram)

**Production possibility curve:**

Production possibility curve is a curve measuring the maximum combination of output that can be obtained from a given number of inputs.

Production possibility curve demonstrate that:

1. There is a limit to what you can achieve given the existing resources and technology.
2. Every choice you make has an opportunity cost and you can get more of something only by giving up something else.

**Scarcity: (2)**

Scarcity is a situation in which resources are limited but can be used in different ways; so one goods or services must be sacrificed for another.

Scarcity does not mean that goods are rare; scarcity exist because economic resources are unable to supply all goods demanded. Society has unlimited wants and needs, so limited resources cannot satisfied their whole demand’s.(1)

**Example**

Real life example would be water scarcity. Water scarcity is the main problem forced by many societies. Water use has been growing at more than twice the rate of population increase.

**Choice:**

Human being has unlimited wants so society cannot produce goods in an expected quantity, people have to make choices. When a choice is made, it involves sacrifices such as economy or quality wise.

**Example**

Government decides to build hospitals and due to which buildings school lacks of resources. Hence it has to forgo either one for time being. The act of forgoing is called opportunity cost.

Choice is based on three things:

**What to produce** Means what commodities or quantity society should produce and also either put their resources to produce more capital goods (machinery) or consumer goods.

**How to produce refer** to the methods of production and the kind of technology to be used for producing goods. For example, a road can be built by using more human labor or more machinery.

**For whom to produce means** the distribution of national income. Everybody cannot get equal share of income. Some get more and become rich while other get less and remain poor.

**Opportunity cost:**

An opportunity cost is the value of the benefit sacrificed when one course of action is chosen in preference to an alternative (3)

Opportunity cost is the value of what is forgone in order to have something else. This is important for production possibility curve because a society will decide how to best allocate its resources according to its opportunity cost.

**Examples**

1. Opportunity cost of an economy investing its resources in new capital goods is the current production of consumer goods that is given up.
2. If Student gives preference to study over movie (in order to get good grades). The opportunity cost is the movie that has been forgone.