



# Production Possibilities

- The **production possibility frontier** (PPF) of an economy shows the *maximum* amount of a goods that can be produced for a fixed amount of resources.
- The production possibility frontier of the home economy is:

$$a_{LC}Q_C + a_{LW}Q_W \leq L$$

Diagram illustrating the components of the production possibility frontier equation:

- $a_{LC}$ : Labor required for each pound of cheese produced
- $Q_C$ : Total pounds of cheese produced
- $a_{LW}$ : Labor required for each gallon of wine produced
- $Q_W$ : Total gallons of wine produced
- $L$ : Total amount of labor resources