

production possibilities Frontier:

the boundary between those goods/services that can be produced vs. those that cannot.

production efficiency:

produce goods/services at lowest possible cost

↳ inefficient because resources are either unused or misallocated.

Every choice along the PPF involves a trade-off, which involves an opportunity cost.

Opportunity cost: highest valued alternative forgone.

PPF lets us calculate O.C.

O.C. is a ratio.

$$\frac{\text{decrease in quantity produced \#1}}{\text{increase in quantity produced \#2}}$$

allocative efficiency:

lowest possible cost & greatest possible benefit.

Marginal cost:

opportunity cost of producing one more unit of it.

calculated from the slope of the PPF.

Marginal Cost: tangent of PPF

Opportunity Cost: secant of PPF

PPF are generally bowed outward reflecting increasing opportunity costs as more goods are produced.