

### Production Possibility Curves.

- a. Illustrates concepts of efficiency, scarcity, opportunity cost.
- b. Assumes society with two goods (perhaps Robinson Crusoe with fish and fruit).
- c. Indicates combinations of each good that can be produced.
- d. Example for farmer: amount of two possible commodities he might grow.

---

---

---

---

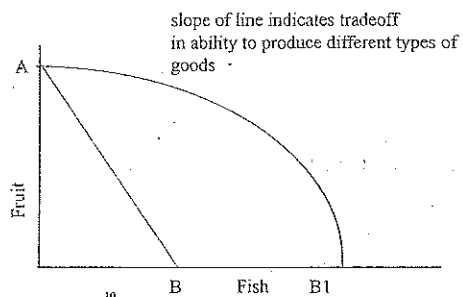
---

---

---

---

### Production Possibility Curve



---

---

---

---

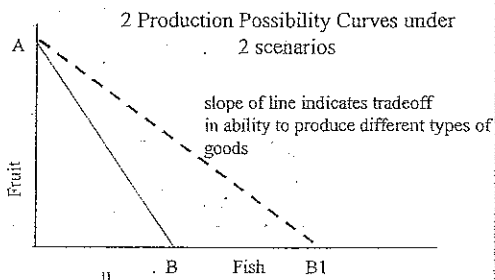
---

---

---

---

### No Specialized Resources-PPC Straight



---

---

---

---

---

---

---

---

## Economic Laws Affecting Production Possibilities

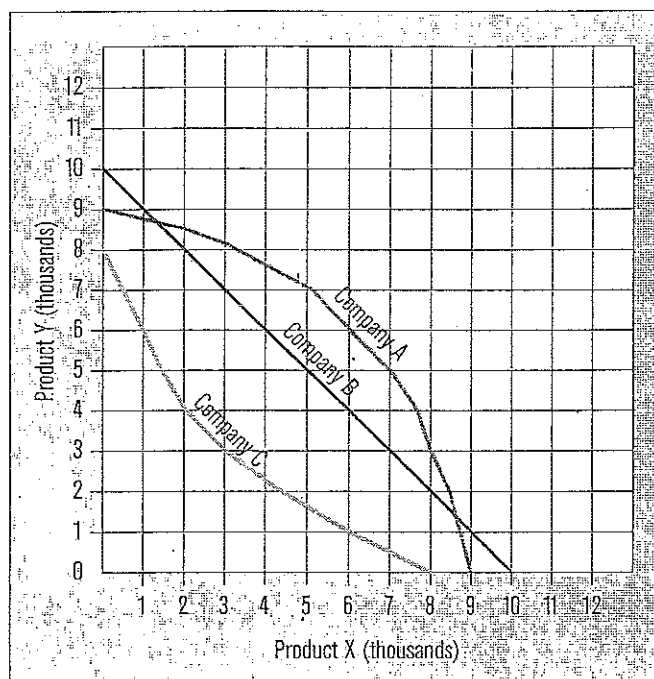
Pages 15-20 of *Economics Now*

1. Why do economists use production possibility curve graphs?
2. Identify and explain the assumptions on which a production possibility curve is based.
3. Define and explain with an original example the law of increasing relative cost.
4. If the opportunity cost of an item remained constant how the line on its production possibility curve would appear?
5. Create a production possibility schedule and a production possibility curve that reflects a constant opportunity cost of 1000 loaves of bread for each plough.
6. How does the law of increasing relative cost affect the production possibility curve?
7. Why does the slope of the curve become steeper at its ends (or why does opportunity cost become more drastic)? (Hint: see the explanation for fig. 1.11)
8. How is the production possibility curve an economic frontier for a simple society?
9. Examine fig. 1.2 on page 18. Given the presence of unemployed worker represented by point "L" would the production possibility curve shift down and to the left? Explain your answer.
10. Define and explain with an original example the law of diminishing returns?
11. Define and explain with an original example the law of increasing returns to scale.
12. Define the following terms: trade-off, consumer goods, capital goods, relative cost, opportunity cost, frontier, outputs, and inputs.

# Comparing Production Possibilities Curves

RS 1-7

The following graph presents the production possibilities curves for three rival companies. Study each curve carefully, then answer the questions below.



## Questions

1. For one of these companies, relative costs are constant. As a result, there is a constant transformation ratio from one product to another. Identify the company and prove that your selection is correct.
2. For one of these companies, the production factors are such that it would be better off producing ample quantities of both products, rather than attempting to specialize. Identify the company and prove that your selection is correct.
3. For one of these companies, the production factors are such that it would produce most efficiently when specializing in the production of only one product. Identify the company and prove that your selection is correct.
4. Only one of these companies is affected by the law of diminishing returns. Identify the company and prove that your selection is correct.
5. Only one of these companies is affected by the law of increased returns to scale. Identify the company and prove that your selection is correct. What differences in productive resources must exist between this company and the company identified in question 4?