

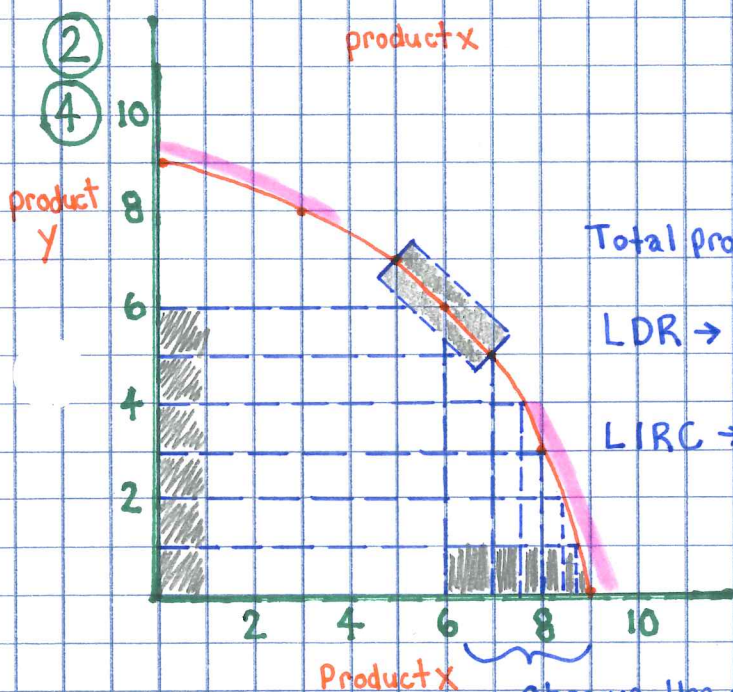
① prove a constant transformation ratio

→ PERFECT RESOURCE MOBILITY

Total Production = constant at 10

opportunity cost is constant as  $y$  is transformed into  $x$  (or vice versa)

the transformation ratio is 1:1 no matter the production mix



② prove economy better off producing a mix over <sup>Specialization</sup>

④ prove a concave PPF is affected by the LDR

Total production = maximized toward the centre of the frontier not toward the ends (specialization)

LDR → the extra or additional returns of  $x$  diminish at an increasing rate as 1  $y$  is sacrificed

LIRC → ever-increasing sacrifice most pronounced at the ends of the frontier as slope becomes more severe

Observe the decline in the rate of extra output <sup>of x</sup> is INCREASING relative to the amount of product  $y$  being sacrificed

→ e.g., 7 $y$  & 5 $x$  = 12 total output

9 $y$  & 0 $x$  = 9 total output

major sacrifice

→ this increasing sacrifice tells us this economy's resources are not equally suited/productive in both products

THEREFORE, the more we try to produce of either good, the less productive are the additional resources we use to produce that good and thus, the larger the opportunity cost

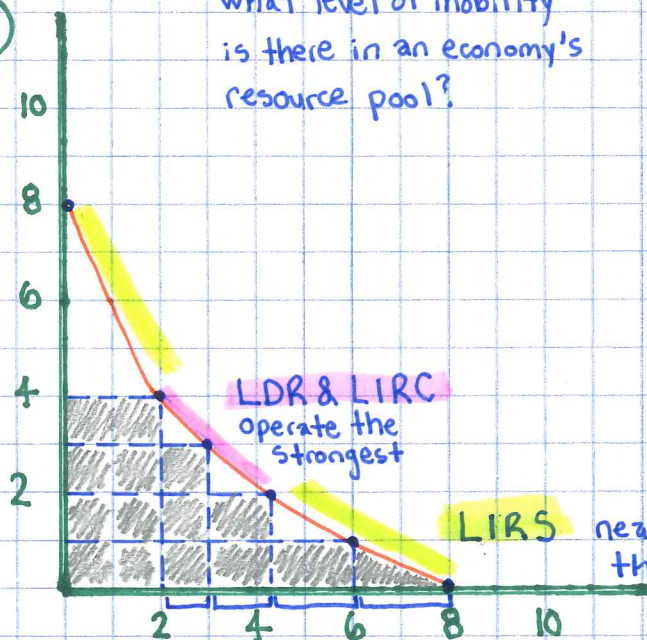


③

⑤

what level of mobility  
is there in an economy's  
resource pool?

product  
Y



product X

③ prove a convex PPF produces most efficiently  
when specializing

⑤ prove a convex PPF is affected by the LIRS

L e I R S  
↳ ever

Total Output Maximized at the ends of PPF,  
demonstrating an economy best suited to  
specialization — resources do not cross over  
well between the two  
products

near the ends, as an economy approaches the axis,  
the rate of extra output increases as opportunity  
cost declines

$$\begin{aligned} \text{e.g., } 3y \text{ \& } 3x &= 6 \\ 8y \text{ \& } 0x &= 8 \end{aligned}$$

} specialization maximizes  
total output & resources  
better suited to one or the  
other product

FINALLY, what do shifting frontiers tell us about an economy?  
which type of PPF best represents a developed economy  
& an emerging or developing economy?