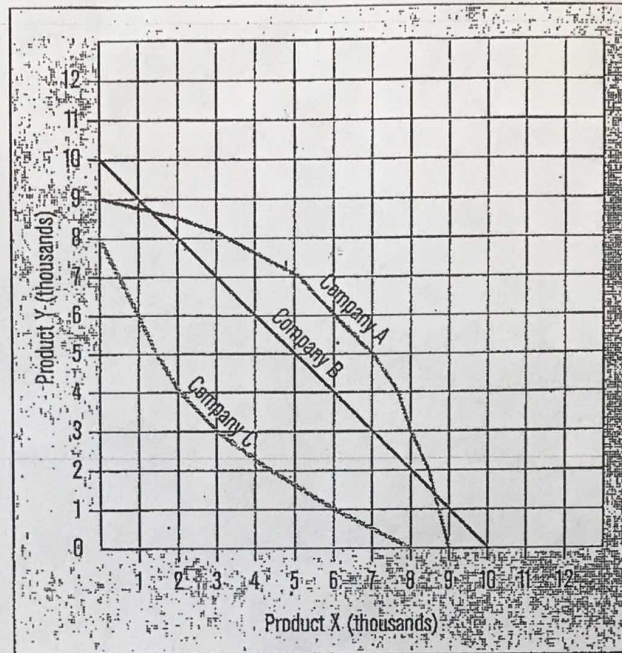


Comparing Production Possibilities Curves

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?