

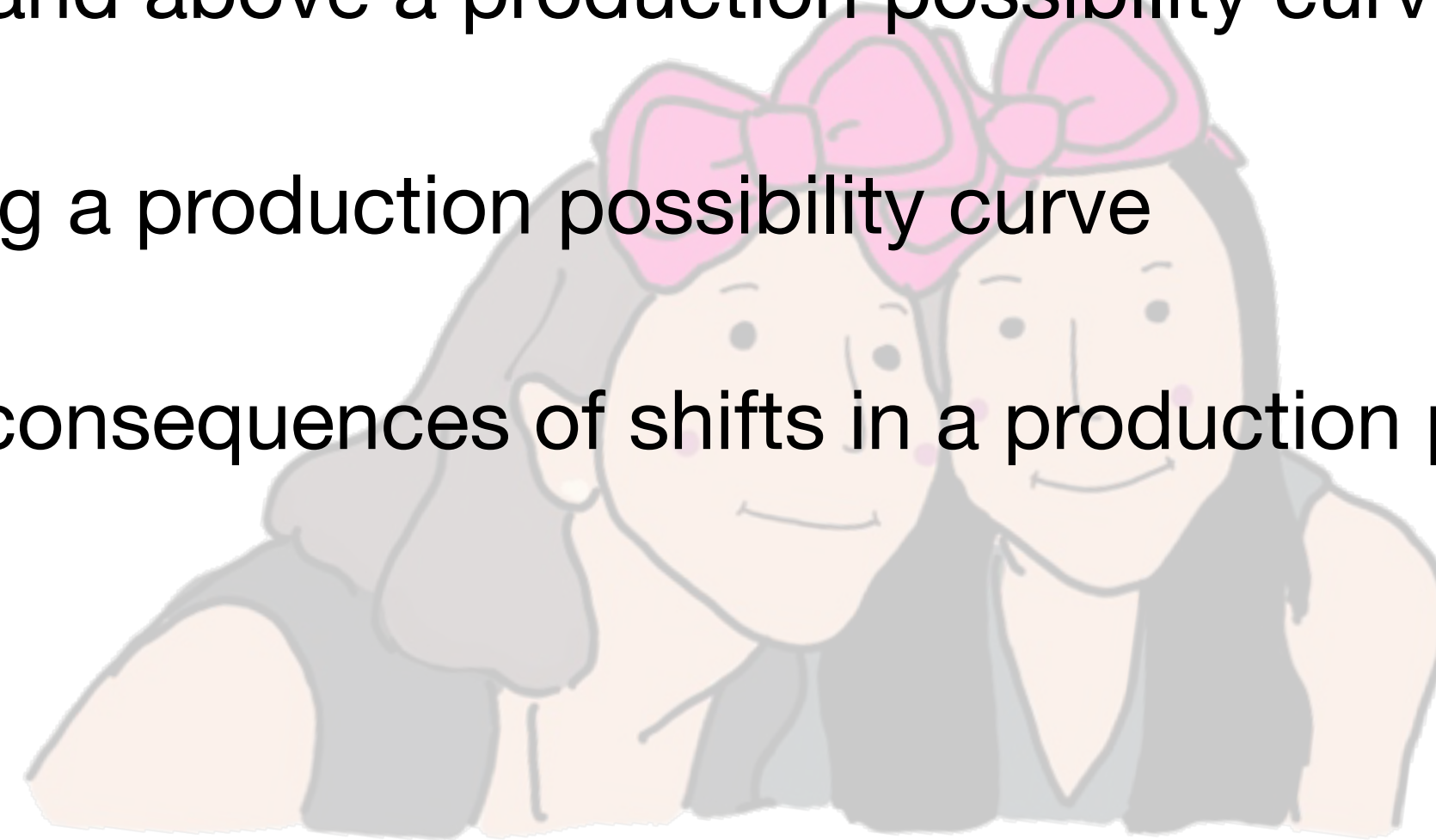


MICROECONOMICS - Production Possibility Curves

By Kru P'Eve and Kru P'Da Knockout.Economics

Overview

1. Define and draw a production possibility curve
2. Interpret points under, on and above a production possibility curve
3. Consider movements along a production possibility curve
4. Consider the causes and consequences of shifts in a production possibility curve



1. Define and draw a production possibility curve

Production Possibility Curve (PPC) : represents the maximum output of two types of outputs that can be produced given current resources and technology.

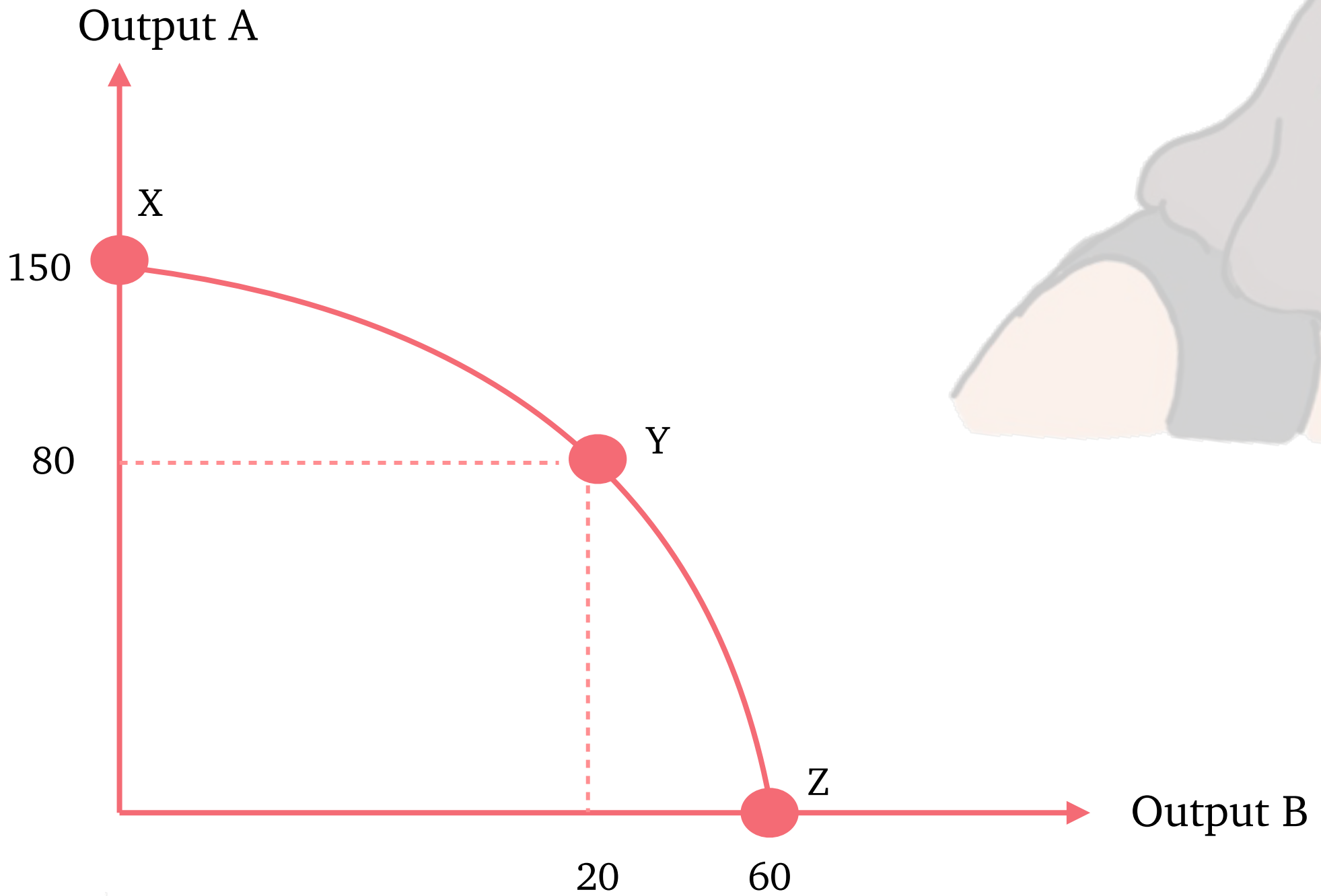


Figure 1 : A production possibility curve

Figure 1 represents a country can produce either :

- Point X : 150 units of output A
- Point Z : 60 units of output B
- Or A combinations of these two types of goods eg. Point Y : 80 units of output A and 20 units of output B

2. Interpret points under, on and above a production possibility curve

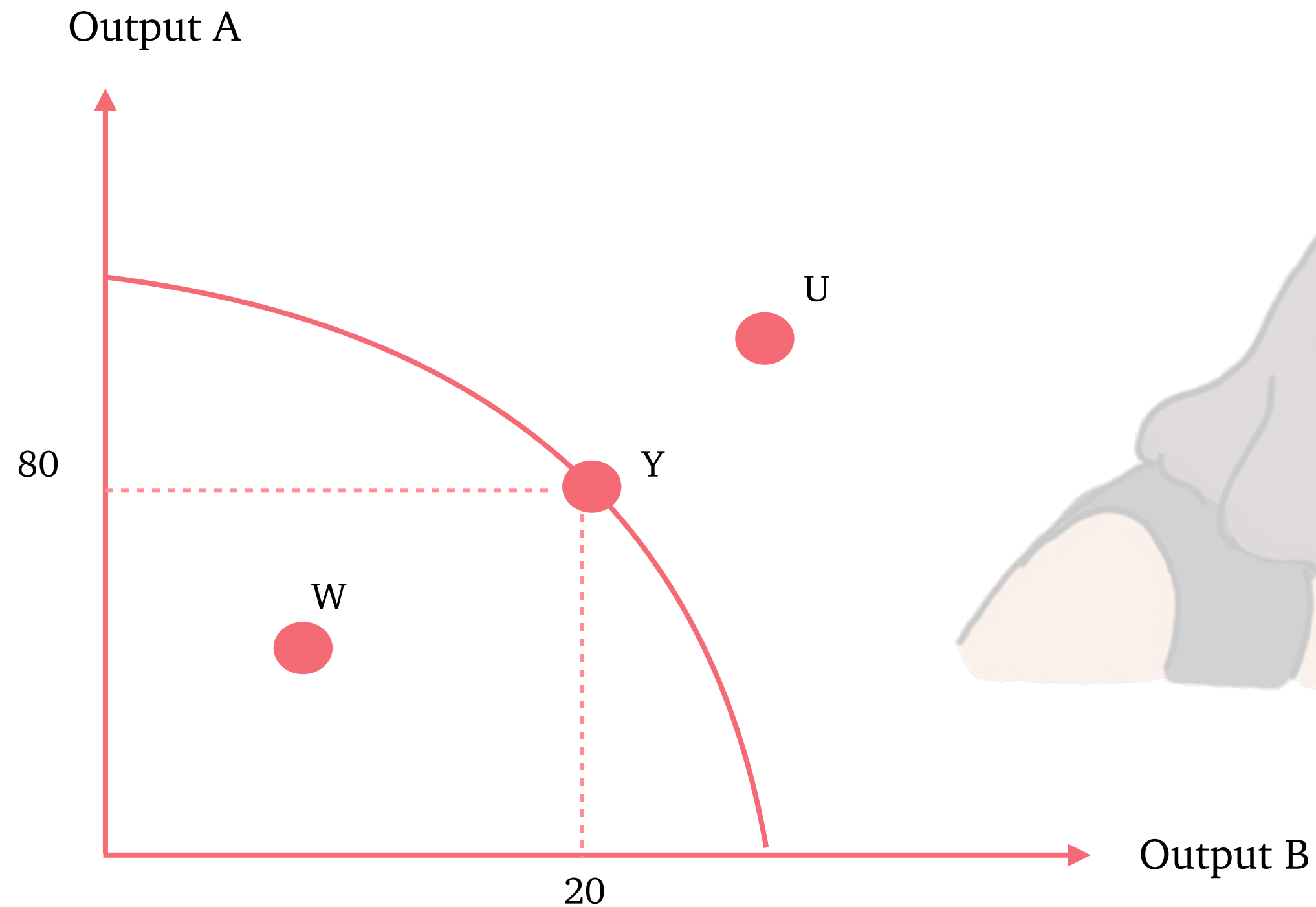


Figure 2 : A production possibility curve and points

Point Y (Or anywhere on the curve) : shows maximum output and full capacity. This means that maximum use is being made of existing resources. (Full employment)

Point W (Below PPC): shows inefficient use of resources and below full capacity where there are unemployed resources.

Point U (Above PPC): shows unobtainable capacity. There are not enough resources to produce.

Figure 2: A production possibility curve and production points

Knockout Exam : Anywhere on the curve - maximise efficiency used of resources OR full employment.

3. Consider movements along a production possibility curve

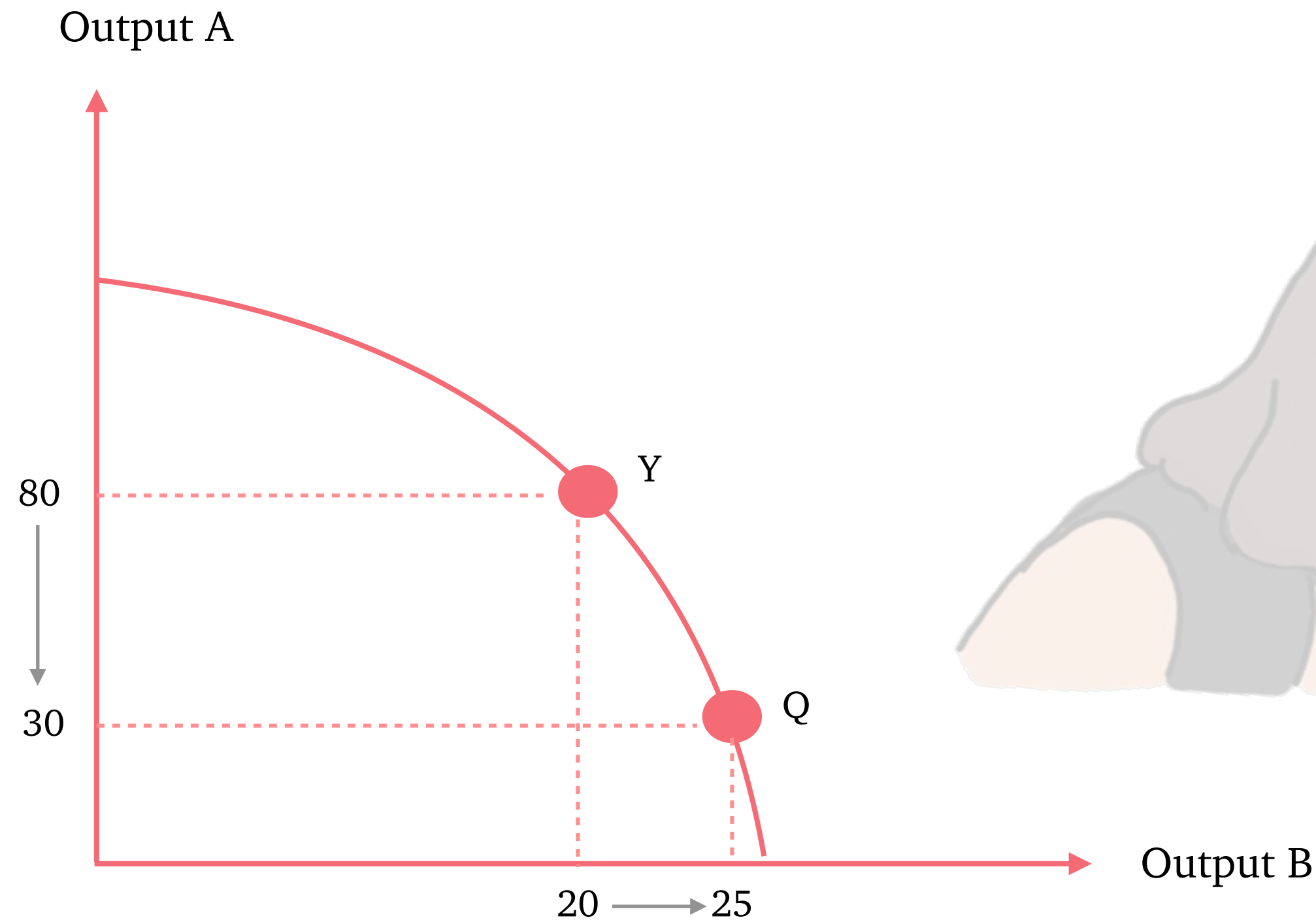


Figure 3: A movement along the ppc

Figure 3: A movement along the ppc

A movement along PPC represents that resources are being reallocated. It also represents the **opportunity cost** of that decision because of limited resources.

Point Y (Original point) : A country produces 80 units of output A and 20 units of output B.

If it then decides to produce 25 units of output B, A country will have to switch resources away from producing output A ; in this case ; a country reduces production of output A to 30 units in order to produce output B 25 units.

Therefore, The opportunity cost of producing 5 extra units of output B is 50 units of output A.

To sum up : Movements along PPC diagram represent “Opportunity cost”

4. Consider the causes and consequences of shifts in a production possibility curve

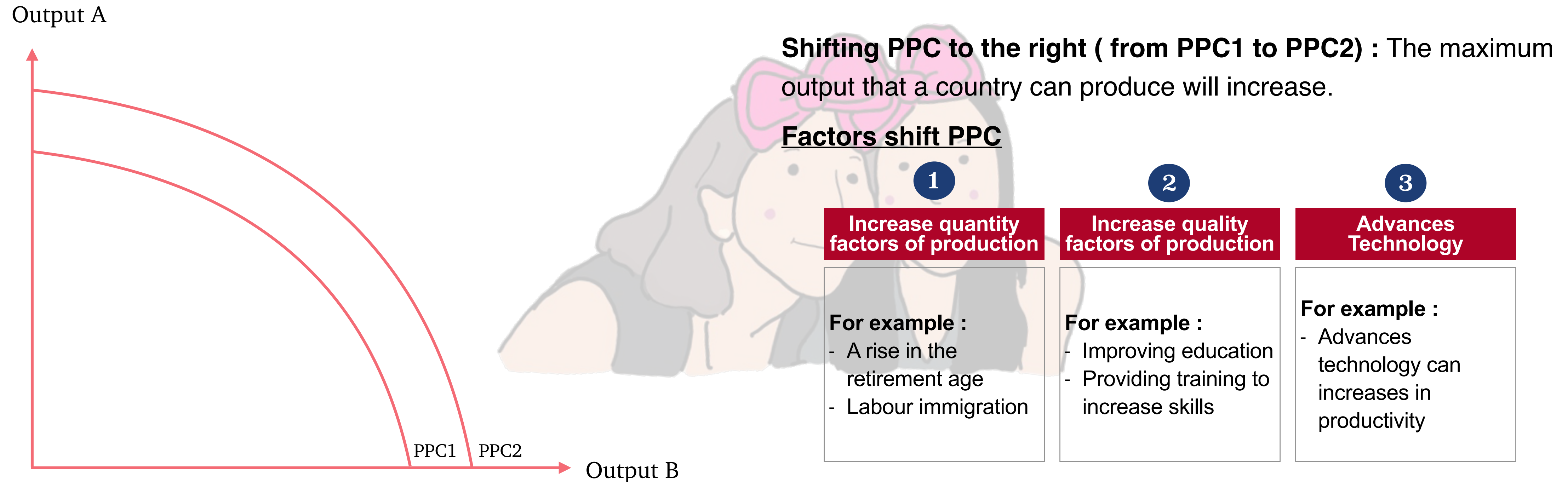


Figure 4: A shift in a PPC

To sum up : A shift in a PPC to the right refers to increase in potential economic growth.

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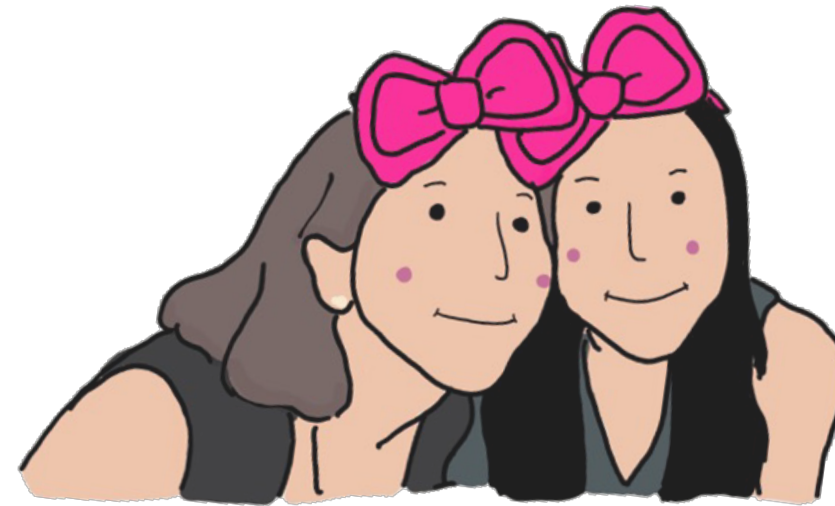
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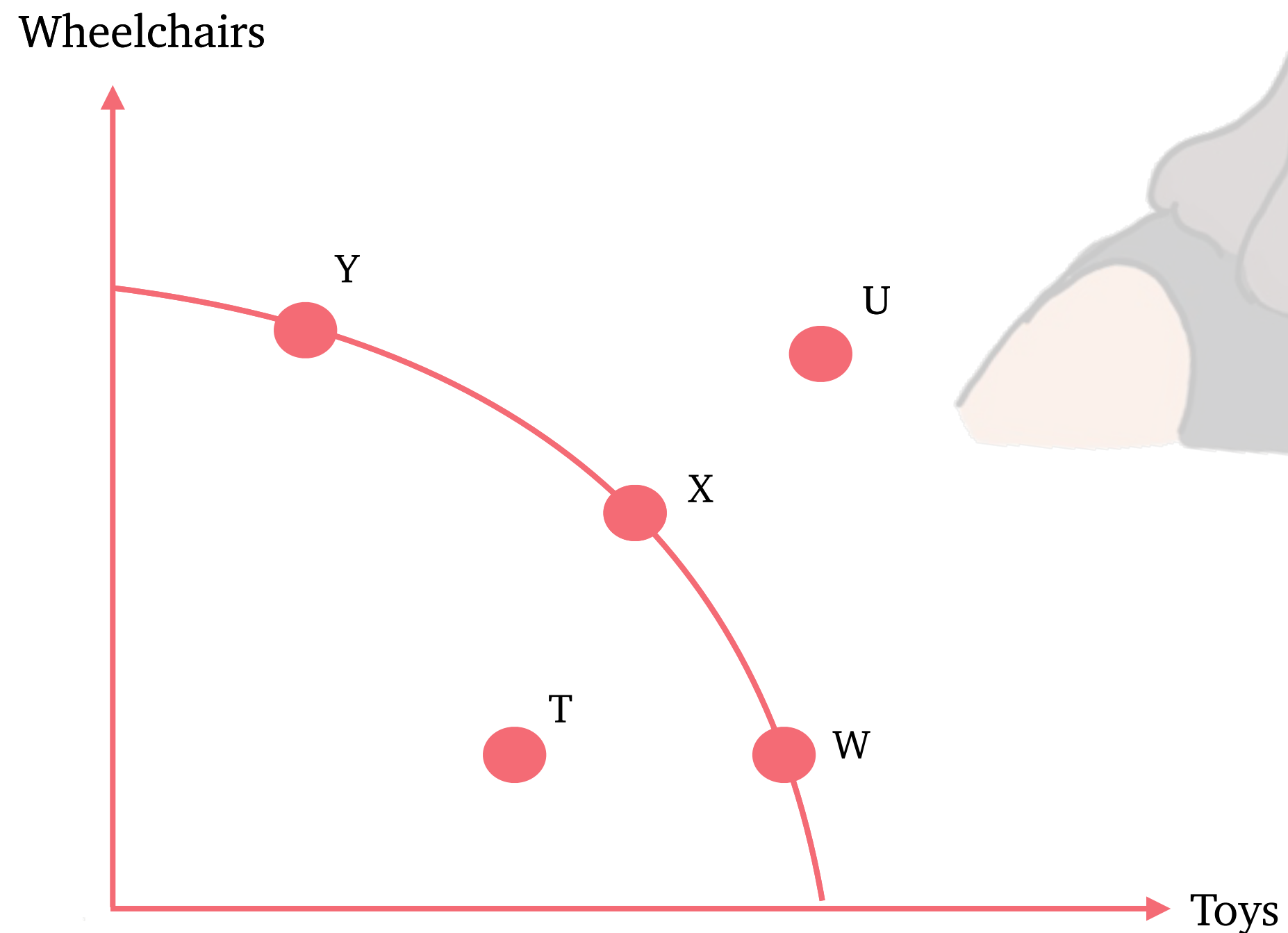


MICROECONOMICS - Exercise - Production Possibility Curves

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Exercise: MCQ

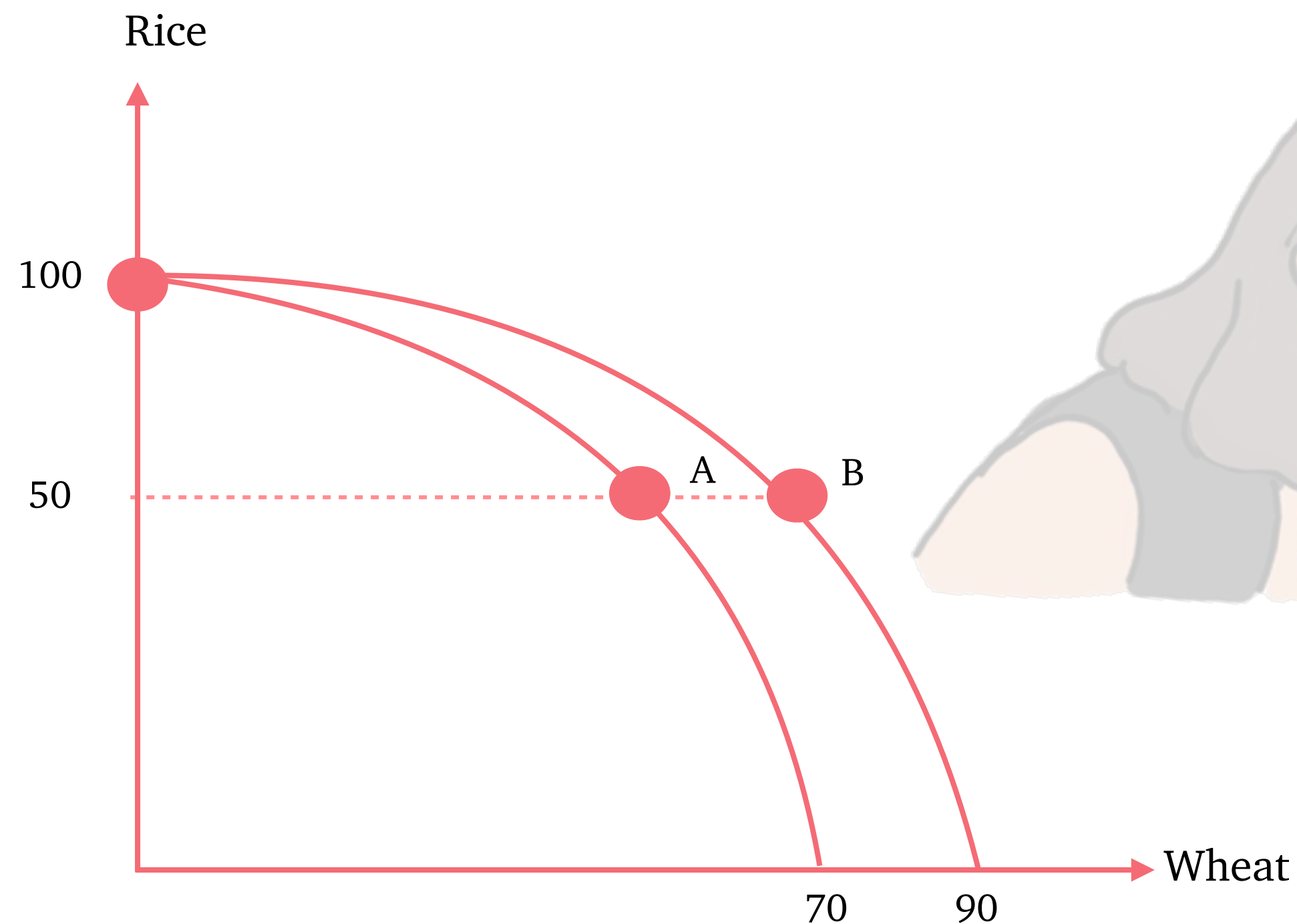
1. The diagram represents the production possibility curve (PPC) of a country producing at point X. The country has an ageing population and decides to allocate more resources to the production of wheelchairs. Which movement represents this change in resource allocation?



- A. X to T
- B. X to U
- C. X to Y
- D. X to W

Exercise: MCQ

2. The diagram represents two production possibility curves. Which statement about the movement from A to B is correct?



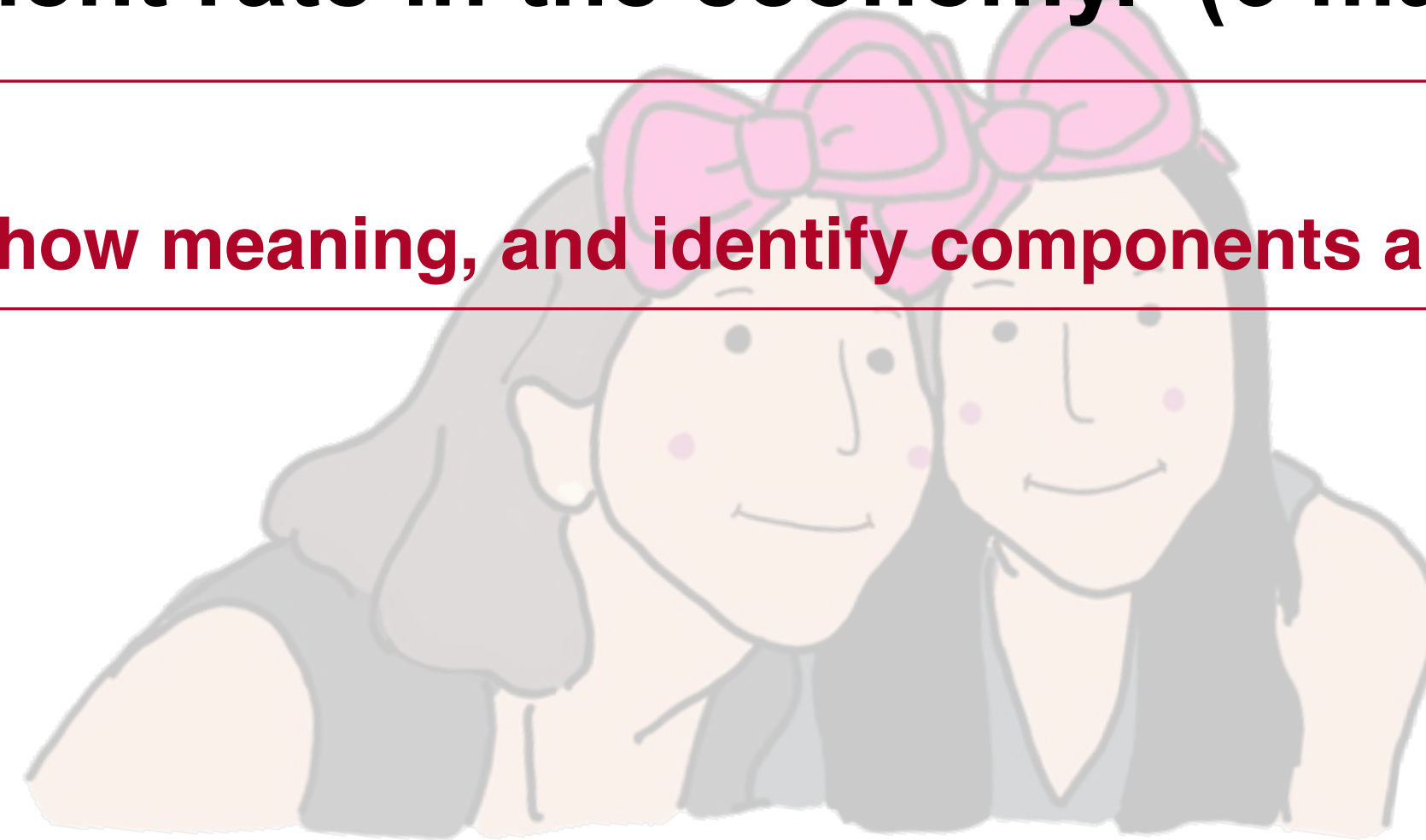
- A. The opportunity cost for producing wheat has risen.
- B. There has been an increase in productivity in wheat production.
- C. Demand for wheat has increased.
- D. The opportunity cost for producing wheat has dropped.

Exercise: Essay

1. Analyse, using a production possibility curve (PPC) diagram, the effect of a increase in unemployment rate in the economy. (6 marks)

Command Word:

Analyse: examine in detail to show meaning, and identify components and the relationship between them



Exercise: Essay

2. Analyse, using a production possibility curve (PPC) diagram, the effect of earthquake on Japan's economy. (6 marks)

Command Word:

Analyse: examine in detail to show meaning, and identify components and the relationship between them



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