

PRODUCTION POSSIBILITIES CURVE (PPC)



The PPF is a diagram to show how scarcity and choice affects an economy.



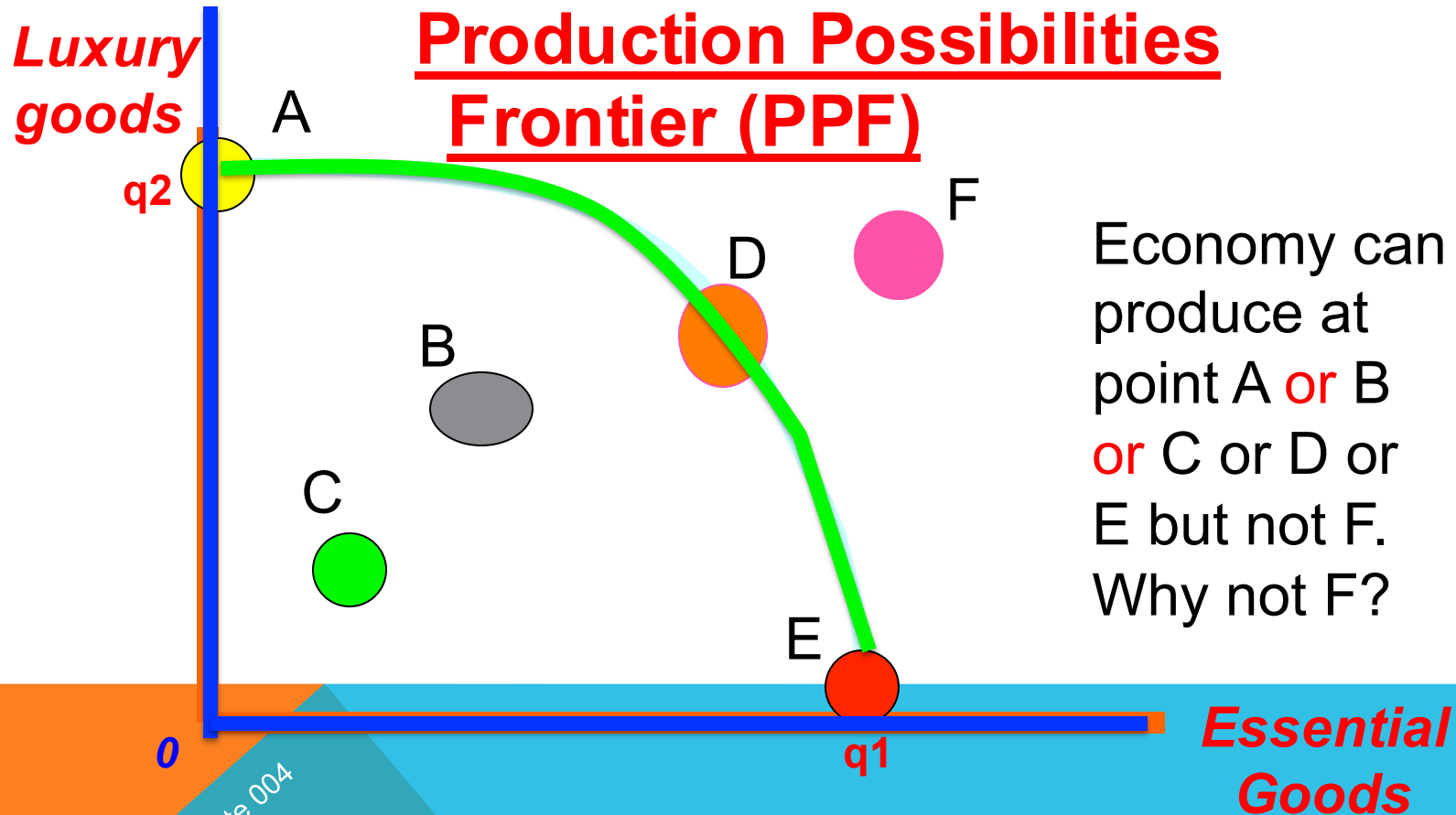
BME

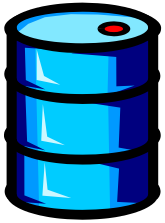
Economy:

Model 2

Production Possibilities
Curve (PPC)

PPF: HOW AN ECONOMY CAN USE RESOURCES





PRODUCTION POSSIBILITIES FRONTIER (PPF)

Other key
concepts:

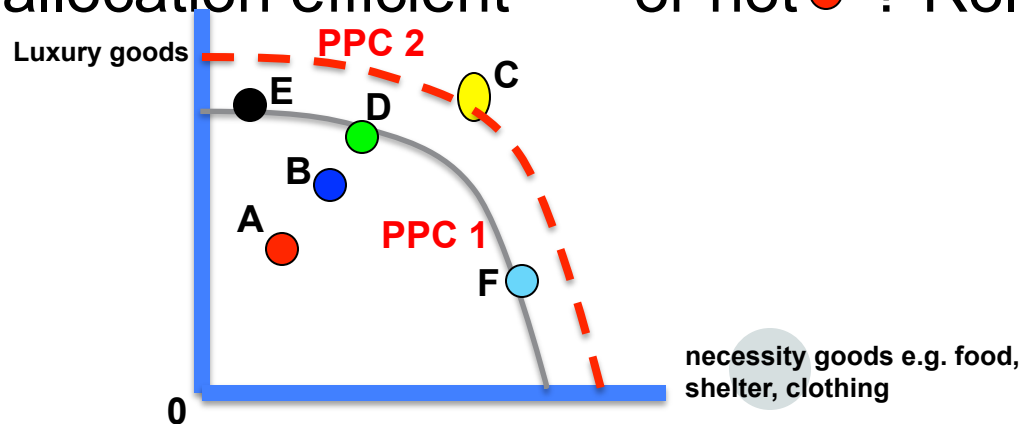


SCARCITY-SECTION 1
RESOURCE ALLOCATION-SECTION 1
ECONOMIC EFFICIENCY-SECTION 1
GROWTH-SECTION 2-SEE SYLLABUS ITEM 105
UNEMPLOYMENT-SECTION 2
DEVELOPMENT-SECTION 4 (SEE SYLLABUS ITEM 165)

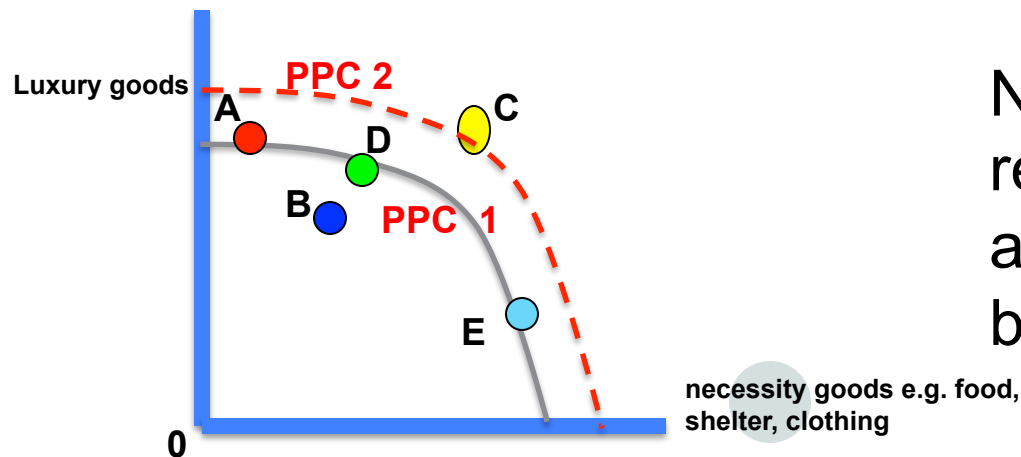
Introduction: Webnote 004



- PPC can show how f.o.p. (resources) result in growth
- Actual** growth: A● to B● OR **Potential** growth D● to C●
- Allocation of scarce resources● Yellow only possible if PPC 1 shifts to PPC 2.
- Is the allocation efficient●●● or not● ? Role for government?



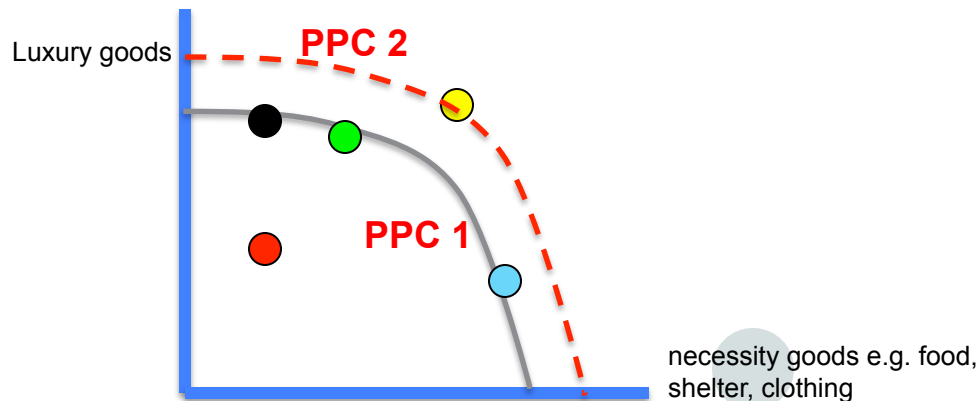
- PPC can show how f.o.p. (resources) can be allocated most efficiently or optimal resource allocation
- See A[●], D[●] or E[●] or any point on the PPC = efficient resource allocation

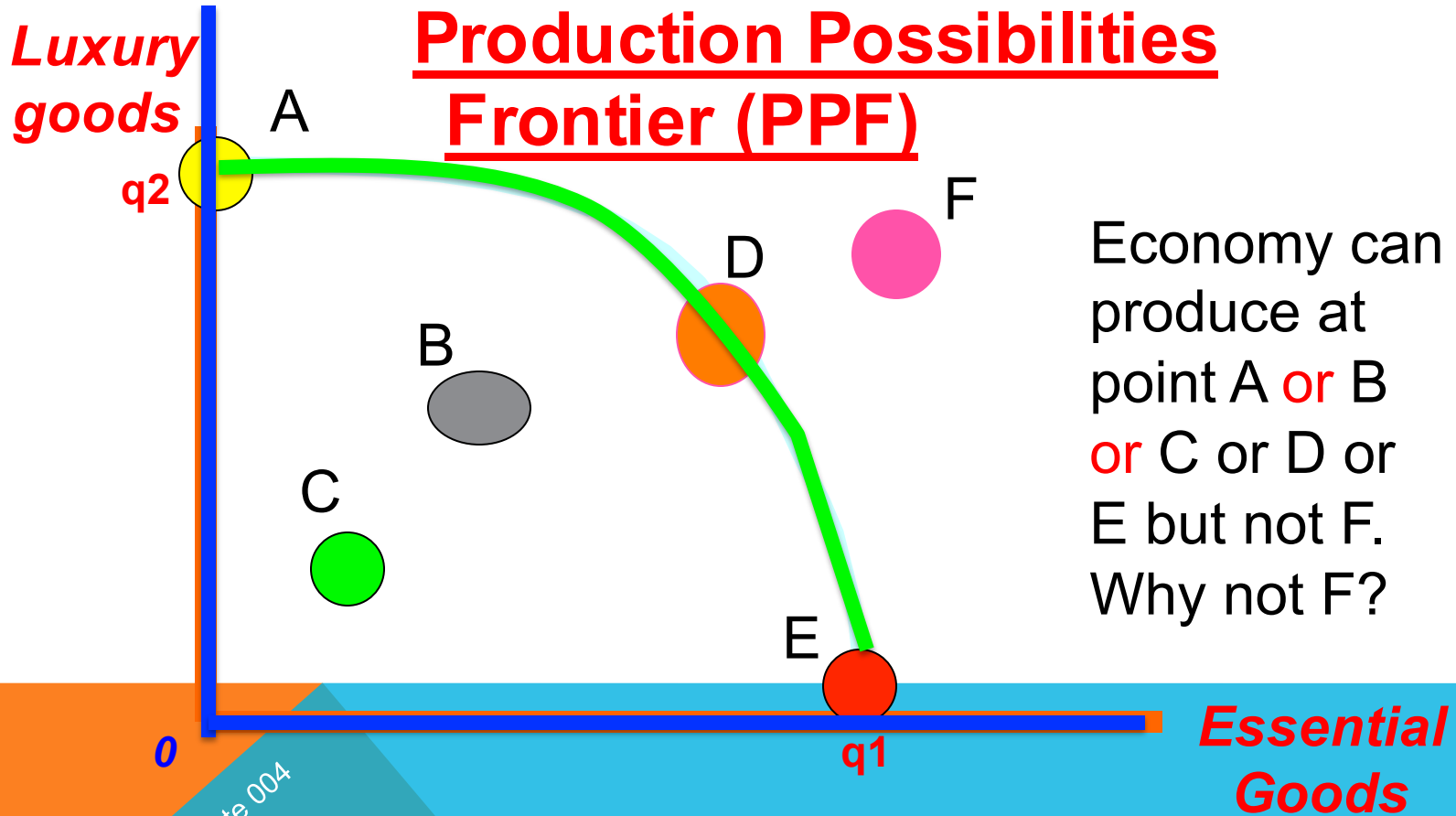


Note: Inefficient resource allocation can be seen at B●

PPF: SCARCITY

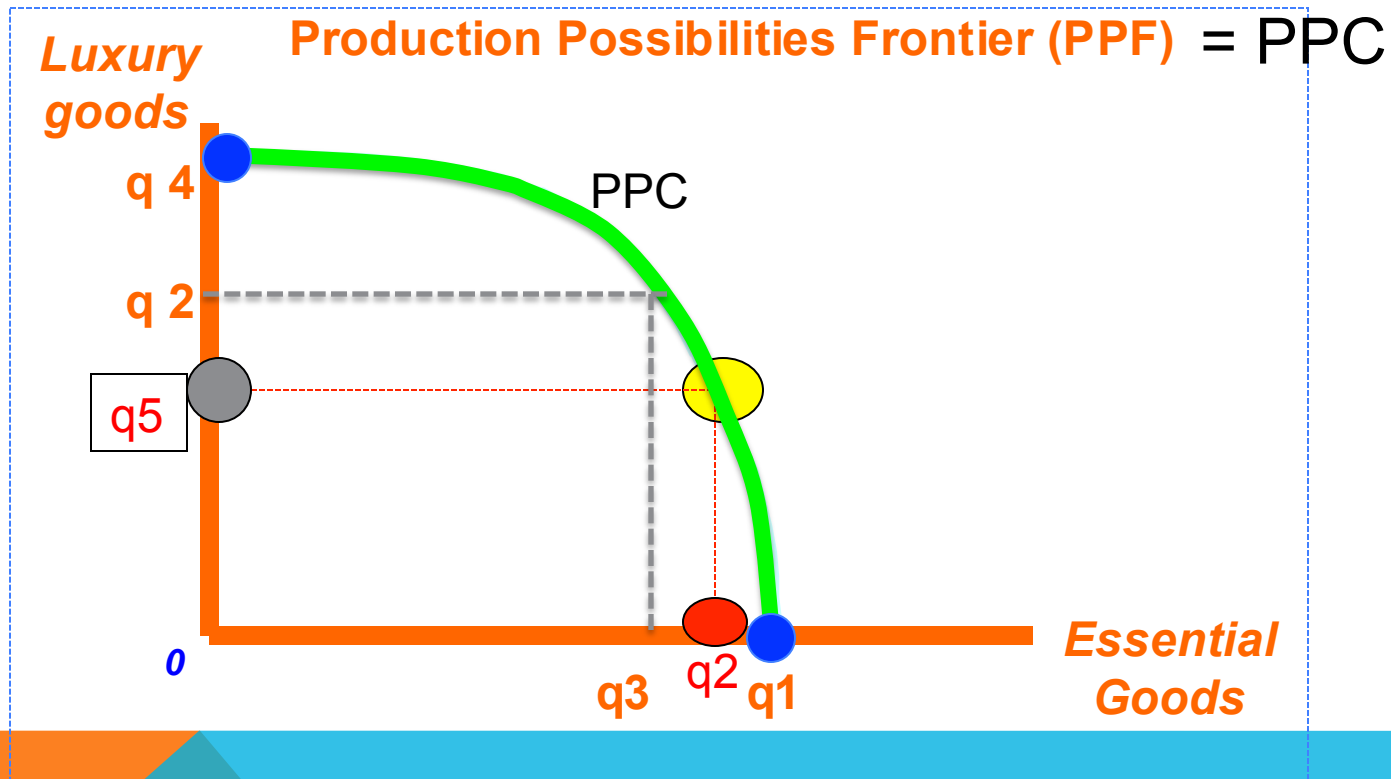
- Scarcity: limited f.o.p. (resources)
- Choice: A ● or B ●
- Allocation of scarce resources ● Yellow only possible if PPC 1 shifts to PPC 2.
- Is the allocation efficient ● or not ● ? Role for government?



PPF: CHOICE**Production Possibilities Frontier (PPF)**

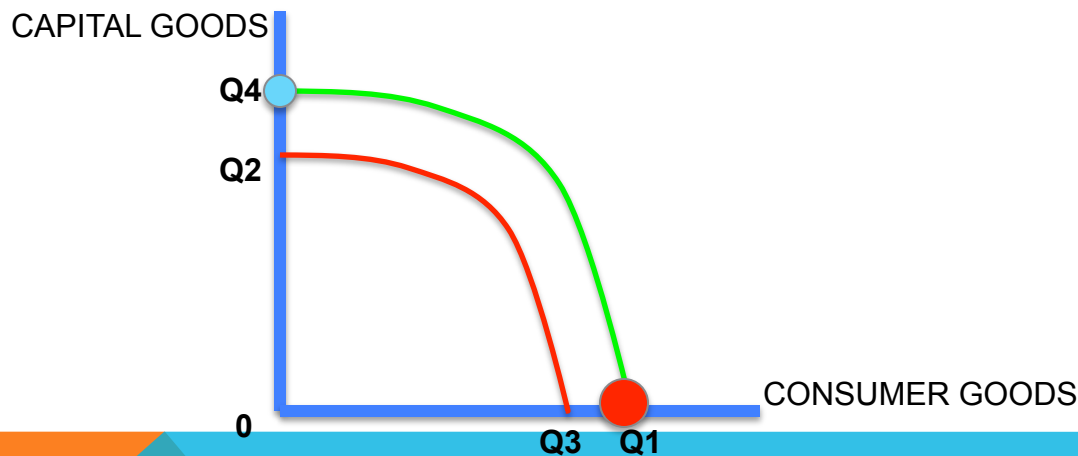
PPC: OPPORTUNITY COST

Webnote 004



PPC: MEASUREMENT

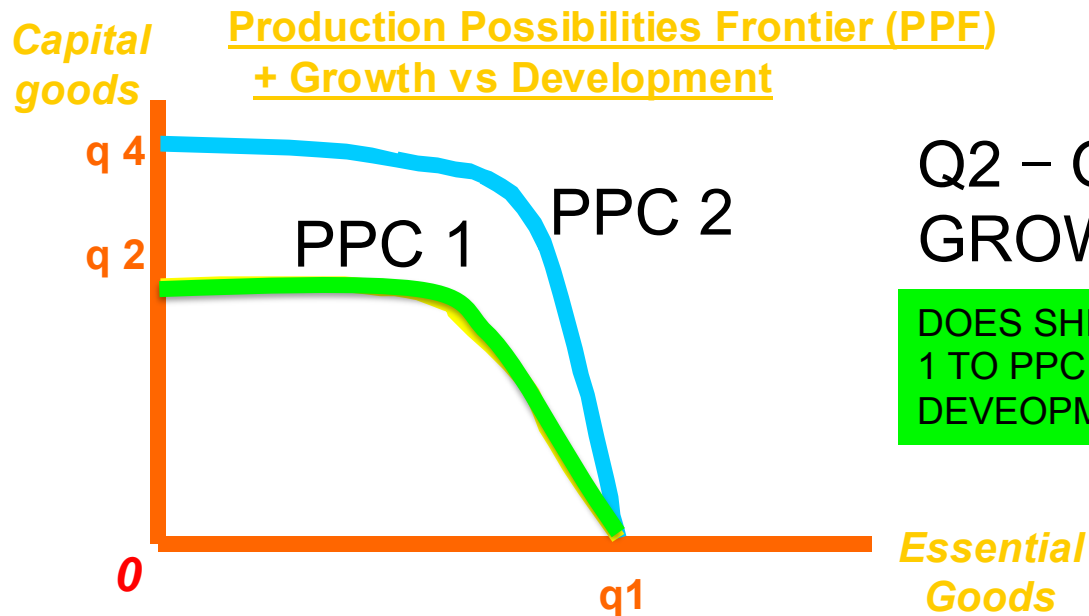
Opportunity cost: can it be measured ? What is the opportunity cost of producing Q_4 ? What is the opportunity cost of producing Q_2 ?



PPC: GROWTH (MORE OUTPUT) + DEVELOPMENT (BETTER QUALITY OF LIFE)

Essential goods:

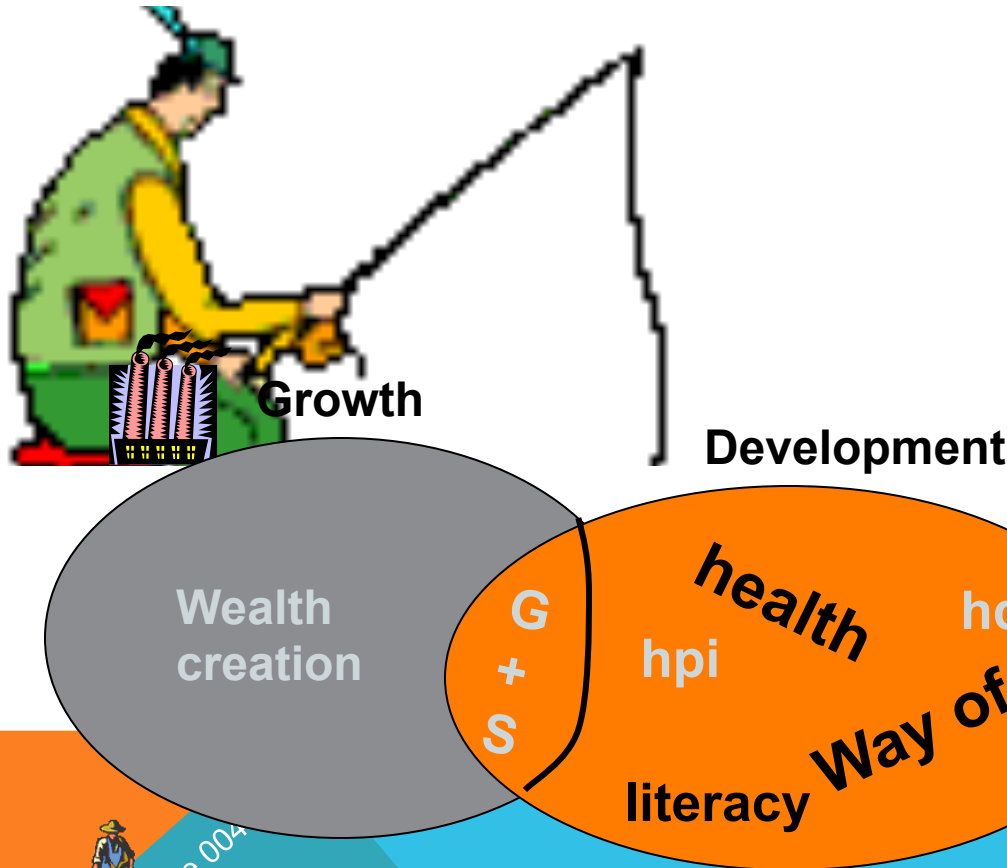
- Food
- Clothing
- shelter



Q2 – Q4
GROWTH

DOES SHIFT FROM PPC
1 TO PPC 2 RESULT IN
DEVELOPMENT?

PPC: GROWTH + DEVELOPMENT



HOW TO MEASURE DEVELOPMENT?

hdi = human development index (blink p160)

Hpi = human poverty index

(blink p165)

Hsi = human suffering index

PPF+IB SYLLABUS

This diagram has multiple applications to the **syllabus** :

- Opportunity cost / scarcity: SYLLABUS SECTION 1
- Economic / allocative efficiency: SYLLABUS 2.3
- Growth: SYLLABUS 3.2
- Economic efficiency of a DC and an LDC SYLLABUS SECTION 4
- Unemployment SYLLABUS 3.5

EXAMPLE

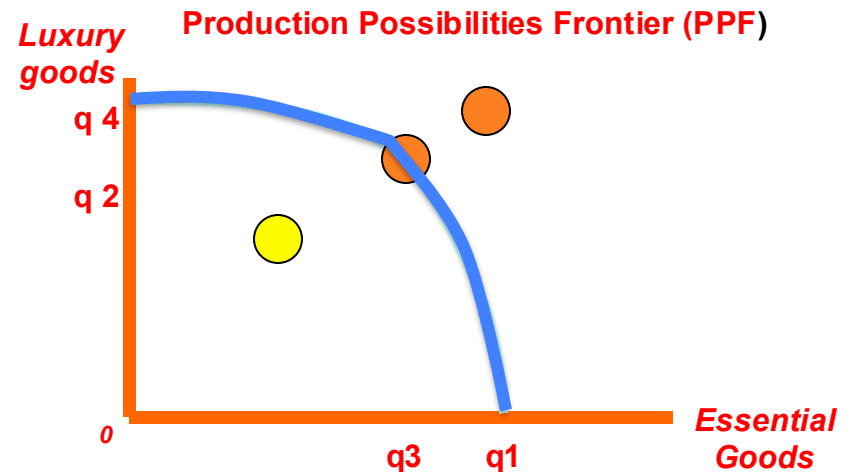
Production Possibilities Frontier

PPF has multiple applications to the course: A detailed example.

- Section 1: Can be used to illustrate scarcity, choice and the idea of limited resources and therefore the need for effective resource allocation. It can clearly show allocative (in)efficiency. It can also be used to illustrate the concept of opportunity cost e.g. the opportunity cost of is equal to the quantity of goods that are not produced as a result of a decision to produce something else

PPC: OUTPUT + UNEMPLOYMENT

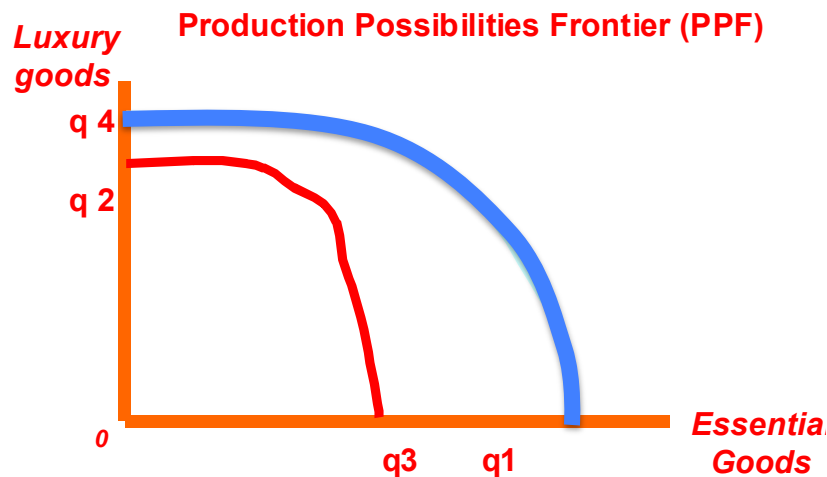
- Section 3.5: PPF could be used to show unemployed factors of production in an economy ●
- It can be used to show actual output and potential output ●



PPC: GROWTH VS DEVELOPMENT

Webnote 004

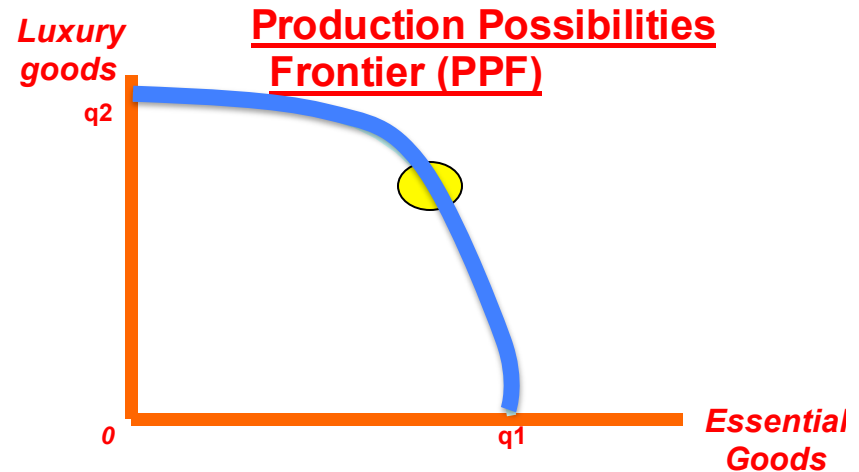
- Section 5: PPF is a useful diagram to examine economic development and growth.



Is there
growth and
development
here?

PPF: ALLOCATIVE EFFICIENCY

- Section 2.3: Here it can be used to contrast allocative efficiency with productive efficiency illustrated on an average total cost curve.



● = allocative efficiency