PRODUCTION POSSIBILITIES

1. Scarcity necessitates choice. Given fixed resources and technology, the production of more of one thing means less production of something else. The opportunity cost of using scarce resources for one thing instead of something else is often represented in graphic form as a production-possibilities curve.

 Assume that an economy can produce the following combinations of goods (measured in millions of units):

Capital Goods Consumer Goods

5 0

4 2

3 4

2 5

0 6

Graph these production possibilities on the following graph:

 6

 5

 4

 3

 Capital Goods 2

 1

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 0 1 2 3 4 5 6

 Consumer Goods

1. What is the maximum quantity of capital goods that can be produced by this economy in a single year?
2. If this economy produces 6 million units of consumer goods, how many capital goods can it produce?
3. What is the opportunity cost in capital goods if this economy produces 6 million units of consumer goods?
4. Draw how would you show on a PPC (Production Possibilities Curve) an economy that is experiencing factory shutdowns and high unemployment?

1. What would happen in this economy if unemployment began to decrease?
2. Can an economy operate at a point outside of its production possibilities curve?
3. What would be indicated by a rightward shift of the curve? (Draw it.)
4. How could this rightward shift of the curve be achieved?
5. What could cause a leftward shift of a country’s production possibilities curve?

**More Practice with Production Possibilities**

**Show on a production possibilities curve how each of the following events would affect a nation’s production possibilities.**

1. The labor force becomes more educated.
2. The unemployment rate drops from 12% to 10%.
3. Productivity (output per worker hour) increases.
4. People begin retiring at earlier ages.
5. New trade barriers are enacted.
6. Factories which have been shut down are re-opened.
7. A large number of new manufacturing facilities are built.
8. The government takes over (nationalizes) the nation’s oil and telecommunication industries.