

- ◎ **Total Money Makeover LIVE!**
- ◎ Sat, May 5 Van Andel Arena 130 West
Fulton Grand Rapids, MI 1:00–6:00 PM
- ◎ **Seats available starting at \$29**

PRODUCTION POSSIBILITIES

Production Possibilities Curve

- ⦿ Shows alternative ways to use an economy's productive resources
- ⦿ Axes of the graph can show categories of goods and services
 - Farm v. consumer goods
- ⦿ Or specific goods
 - Hats v. Shoes

Example: WWII

Expect Few Nylons Until Late in 1947

By UNITED PRESS

The man who ought to know has something to say about the supply of those things most dear to a woman's heart, nylons. Warren Beh, director of nylon sales for Du Pont, the only producers of nylon yarn in the United States, says there won't be enough nylon stockings to satisfy women customers until late in 1947.

There is good news, too. Secretary of Agriculture Anderson says we won't have to ration bread to meet our wheat export quotas, but he adds that there may be 20 per cent less fats and oils due to the world food shortage.

- The line on the production possibilities curve is called the production possibilities “frontier”

- ⦿ Look at the graph on page 15 of your book
- ⦿ You are a member of the Capeland government
- ⦿ Capeland is at point B on the production possibilities frontier
- ⦿ How would you convince other officials to move production to point D?
- ⦿ Make a one-paragraph argument that the change to D is possible and reasons why it should be done

- ◎ Production Possibilities Curves give us information
 - How efficient an economy is
 - Whether an economy has grown or shrunk
 - The opportunity cost of a decision to produce more of one good or service

Efficiency

- ⦿ Efficiency: using resources to maximize the production or output of goods and services
- ⦿ Sometimes economies operate inefficiently
 - Example: layoffs
- ⦿ A point inside the production possibilities frontier represents an inefficient use of resources
- ⦿ Underutilization: using fewer resources than the economy is capable of using

Growth

- ⦿ The production possibilities curve can change if a country's resources change:
 - Immigrants can make more labor available
 - Inventions allow workers to produce more goods
- ⦿ When an economy grows, the curve shifts to the right →
- ⦿ When an economy's production capacity decreases, the curve shifts to the left ←

Cost

- Cost is not necessarily money
- Cost is the alternative we give up when we choose one option over the other
- “Cost” for economists always means Opportunity Cost
- On the production possibilities curve on page 15, you can see that the cost of producing more shoes, or more watermelons is increasingly expensive

- ◎ Law of increasing costs:
 - As production switches from one item to another, more and more resources are necessary to increase production of the second item—therefore, the opportunity cost increases
- ◎ Why?
 - Some resources are better suited for use in farming, while others are more appropriate for manufacturing, so the use of resources become more inefficient
 - That is why the production possibilities frontier curves

⦿ Review Questions:

- What causes a production possibilities curve to shift to the right?

- ⦿ What causes a production possibilities curve to shift to the left?

- Read the Safety at Any Cost Case Study on page 19 with a partner and come up with answers to the two questions—be ready to discuss!