

Unit 1: Basic Economic Concepts

REVIEW

- 1. Explain relationship between scarcity and choices**
- 2. Differentiate between positive & normative**
- 3. Differentiate between price and cost**
- 4. Differentiate between consumer and capital goods**
- 5. Differentiate between command economies and free market economies**
- 6. Give examples of each of the 4 Factors of Production**
- 7. Define human capital**
- 8. Define tradeoffs**
- 9. Define opportunity cost**
- 10. Name 10 different teachers at BVHS?**

WE HAVE A PROBLEM!!

The Economizing Problem...

Scarcity

Society has unlimited wants but limited resources

The Production Possibilities Curve (PPC)

Using Economic Models...

Step 1: Explain concept in words

Step 2: Use numbers as examples

Step 3: Generate graphs from numbers

Step 4: Make generalizations using graph



What is the Production Possibilities Curve?

- A production possibilities curve (or frontier) is a model that shows alternative ways that an economy can use its scarce resources
- This model graphically demonstrates scarcity, trade-offs, opportunity costs, and efficiency.

4 Key Assumptions

- Only two goods can be produced
- Full employment of resources
- Fixed Resources (*Ceteris Paribus*)
- Fixed Technology

Production “Possibilities” Table

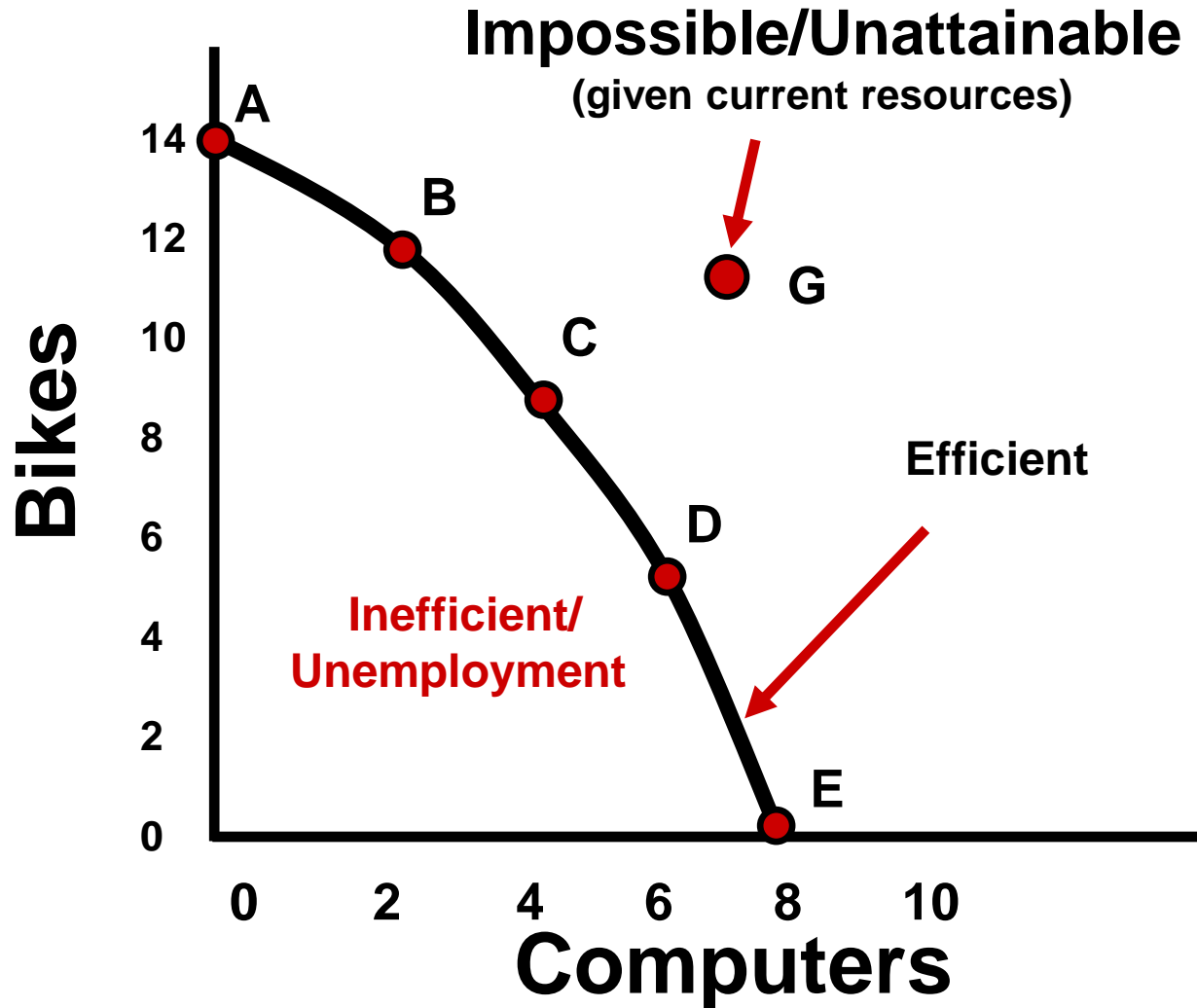
	A	B	C	D	E
Bikes	14	12	9	5	0
Computers	0	2	4	6	8

Each point represents a specific combination of goods that can be produced given full employment of resources.

NOW GRAPH IT: Put bikes on y-axis and computers on x-axis

Production Possibilities

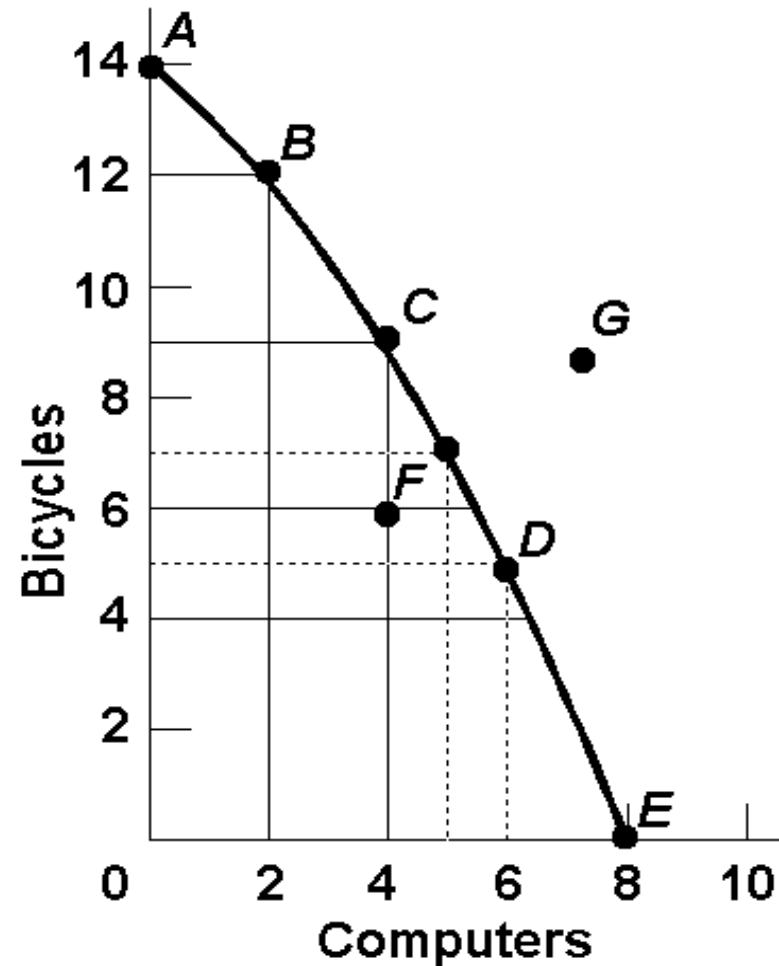
How does the PPG graphically demonstrate scarcity, trade-offs, opportunity costs, and efficiency?



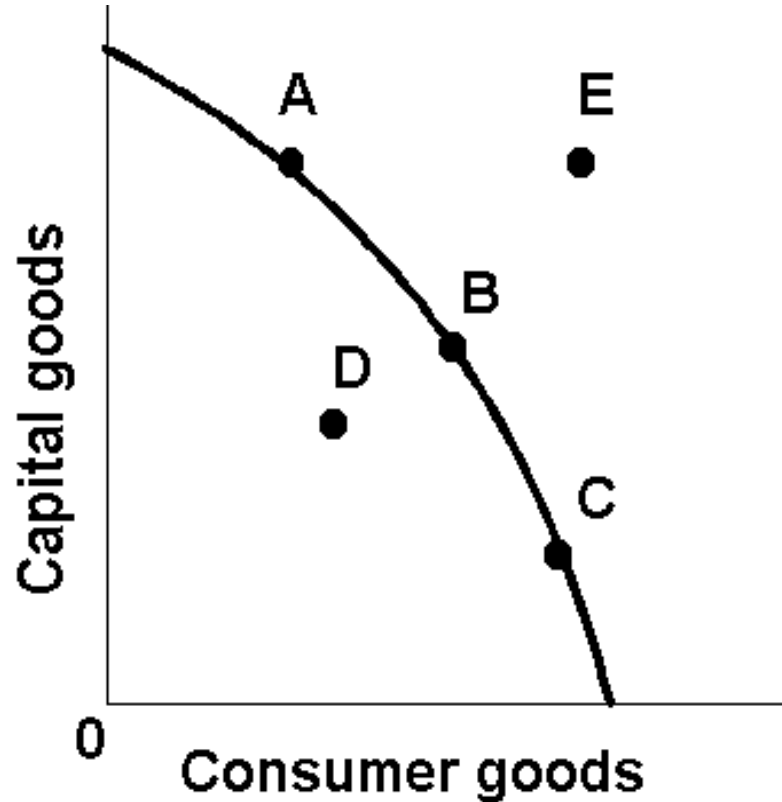
Opportunity Cost

Example:

1. The opportunity cost of moving from a to b is... **2 Bikes**
2. The opportunity cost of moving from b to d is... **7 Bikes**
3. The opportunity cost of moving from d to b is... **4 Computer**
4. The opportunity cost of moving from f to c is... **0 Computers**
5. What can you say about point G?
Unattainable



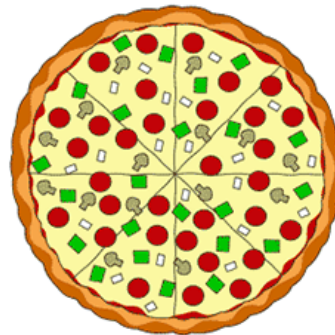
The Production Possibilities Curve (or Frontier)



Production Possibilities

	A	B	C	D	E
CALZONES	4	3	2	1	0
PIZZA	0	1	2	3	4

- List the Opportunity Cost of moving from a-b, b-c, c-d, and d-e.
- Constant Opportunity Cost- Resources are easily adaptable for producing either good.
- Result is a straight line PPC (not common)



Production Possibilities

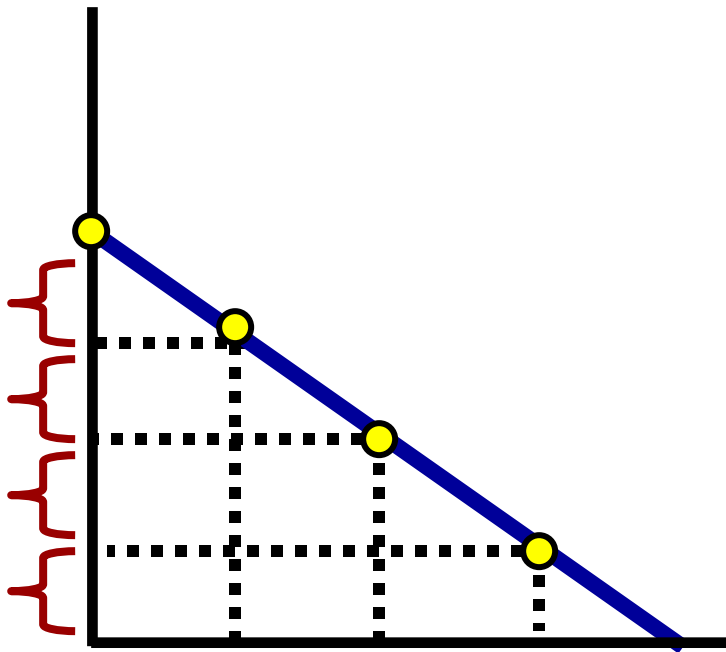
	A	B	C	D	E
PIZZA	20	19	16	10	0
ROBOTS	0	1	2	3	4

- List the Opportunity Cost of moving from a-b, b-c, c-d, and d-e.
- Law of Increasing Opportunity Cost-
 - As you produce more of any good, the opportunity cost (forgone production of another good) will increase.
 - Why? Resources are NOT easily adaptable to producing both goods.
- Result is a bowed out (Concave) PPC

Constant vs. Increasing Opportunity Cost

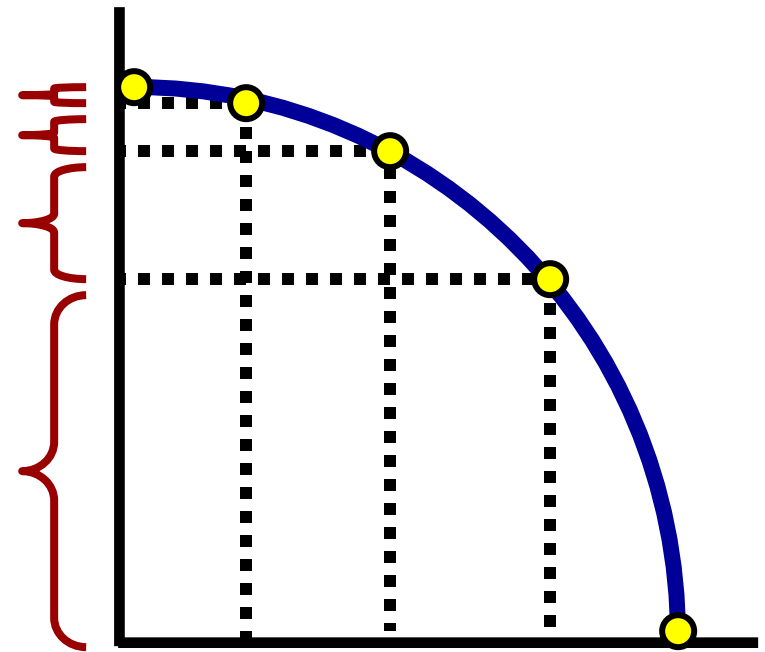
Identify which product would have a straight line PPC and which would be bowed out?

Corn



Wheat

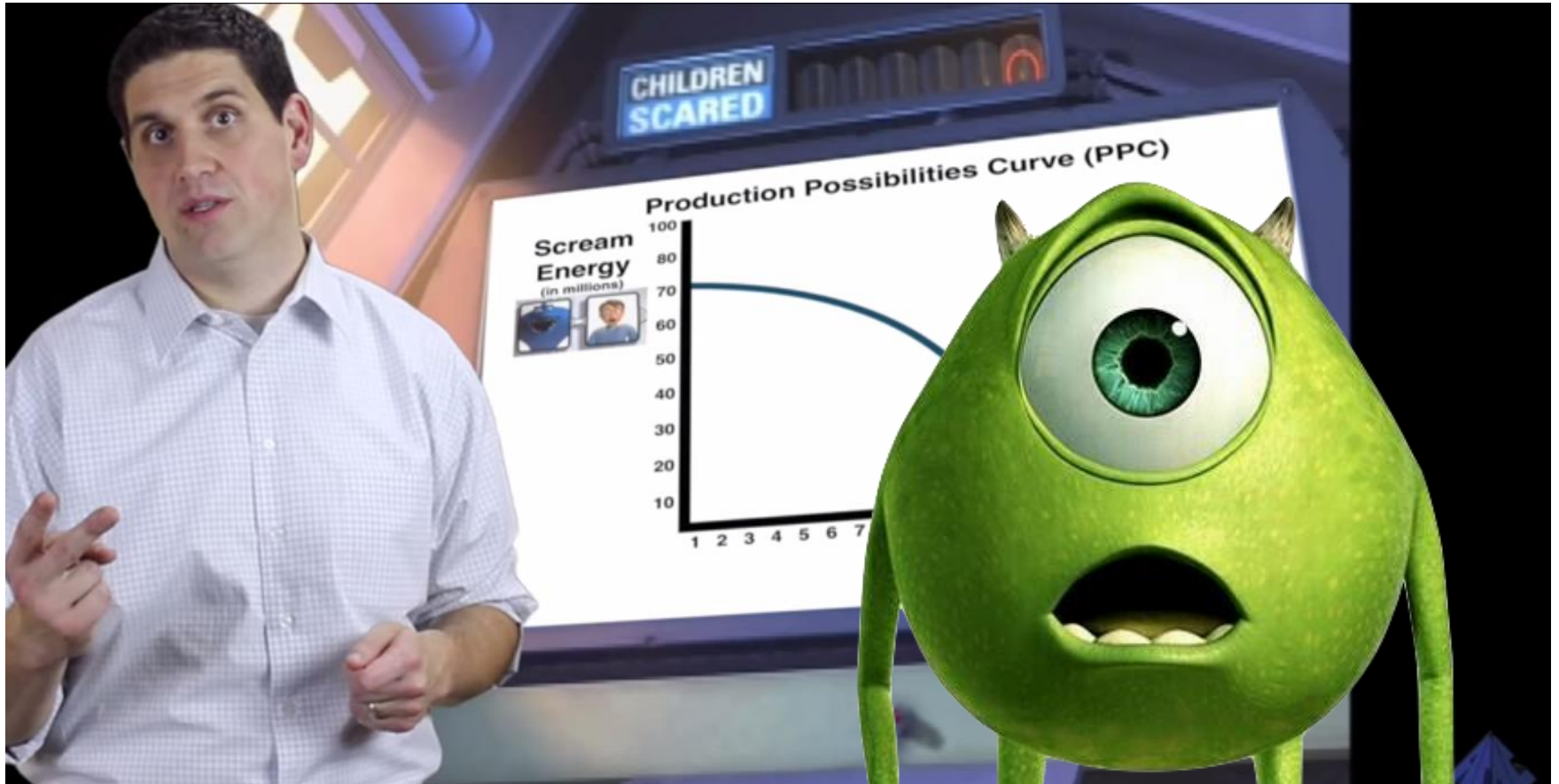
Cactus



Pineapples

Econmovies

Episode 3: Monsters Inc.



The Production Possibilities Curve and Efficiency

Two Types of Efficiency

Productive Efficiency-

- Products are being produced in the least costly way.
- This is any point **ON** the Production Possibilities Curve

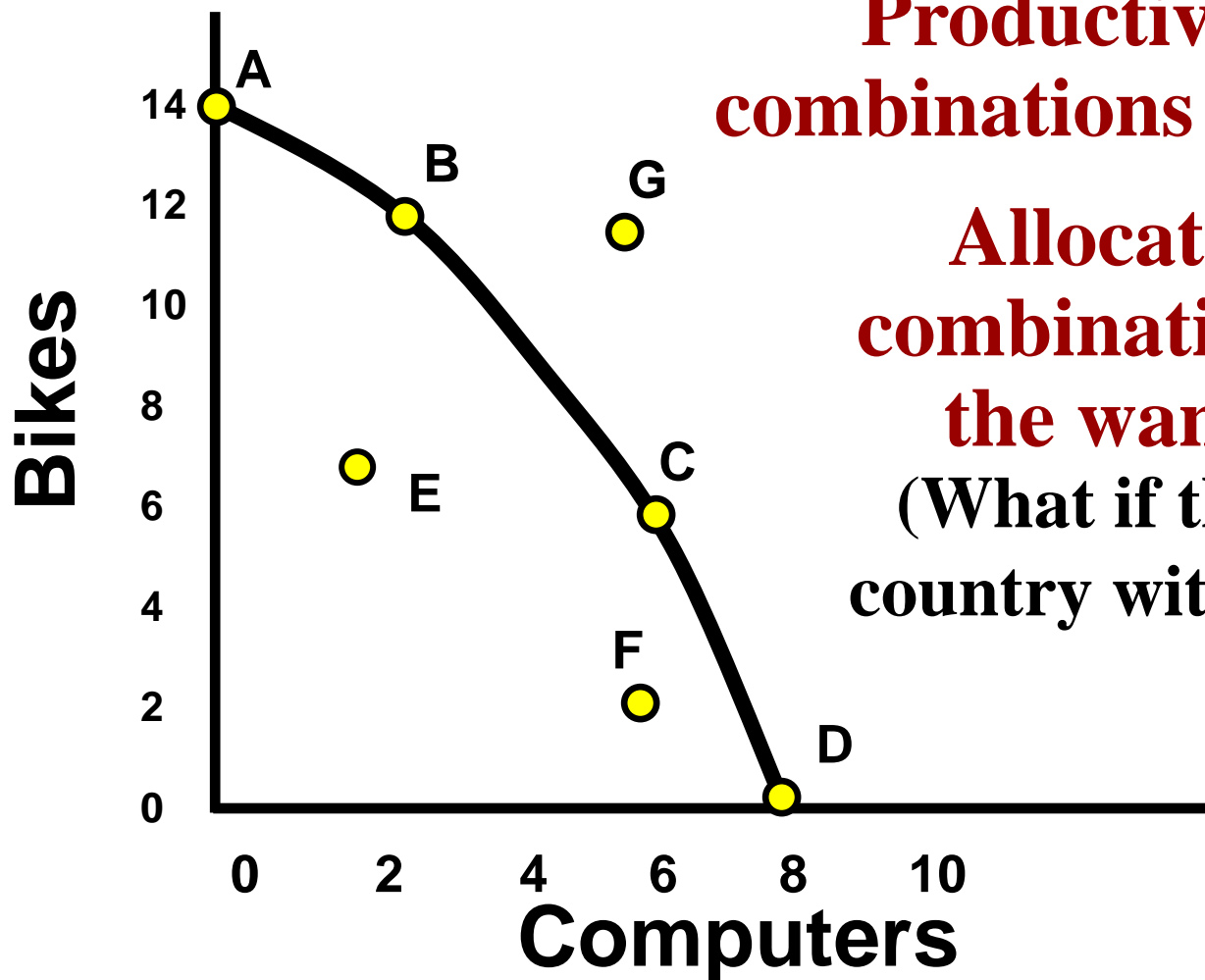
Allocative Efficiency-

- The products being produced are the ones most desired by society.
- This *optimal* point on the PPC depends on the desires of society.

Productive and Allocative Efficiency

Which points are productively efficient?

Which are allocatively efficient?



Productively Efficient combinations are A through D

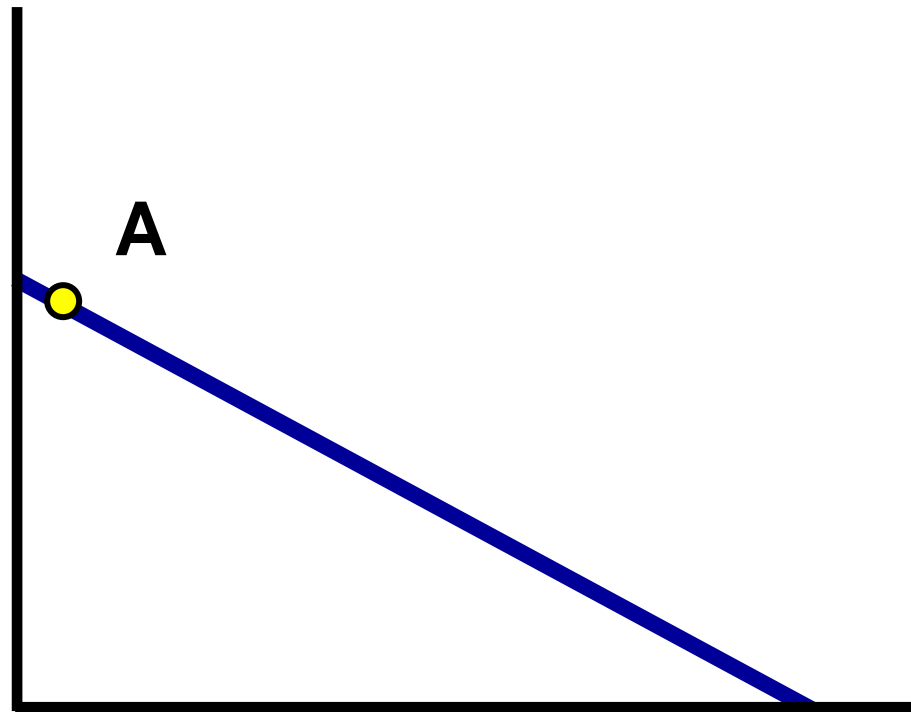
Allocative Efficient combinations depend on the wants of society
(What if this represents a country with no electricity?)

Why two types of efficiency?

Is combination “A” efficient?

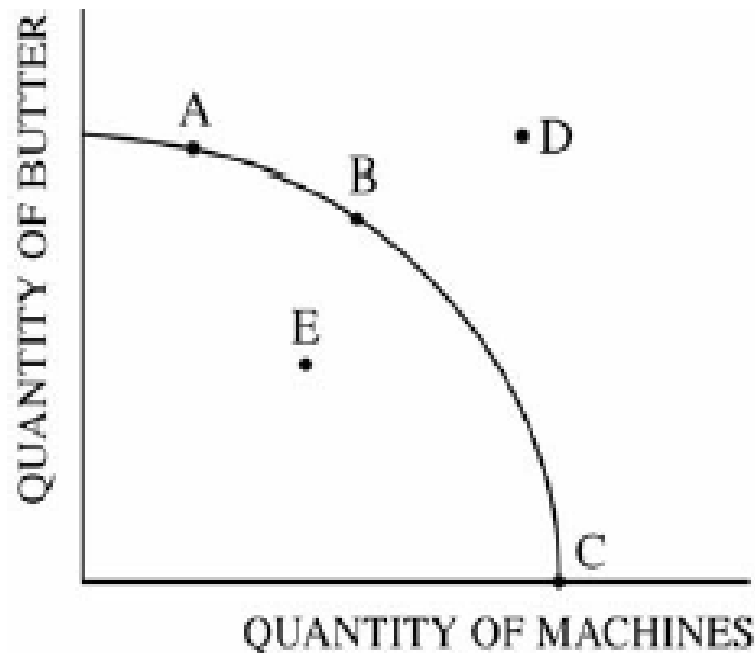
Yes and No. It is productively efficient but it is not the combination society wants

Size 20 running shoes



Size 10 running shoes

17. If resources were perfectly substitutable in all activities, which of the following would be true?
- (A) Output of all goods could be increased at zero opportunity cost.
 - (B) The production possibilities curve would be a straight line.
 - (C) Specialization and mutually beneficial trade would be impossible.
 - (D) No country or individual would have a comparative advantage in any activity.
 - (E) Scarcity of resources would be eliminated.



1. The diagram above shows the production possibilities curve for Country Y. Which of the following statements is true?
 - (A) If Country Y is producing at point C, it is using all its resources efficiently.
 - (B) The opportunity cost of producing more machines is constant.
 - (C) Producing at point C is the most preferable, because butter is a nondurable good.
 - (D) Country Y cannot produce at point E.
 - (E) The economy is not producing at its potential, since it is not producing at point D.

Shifting the Production Possibilities Curve

Production Possibilities

4 Key Assumptions Revisited

- Only two goods can be produced
- Full employment of resources
- Fixed Resources (4 Factors)
- Fixed Technology

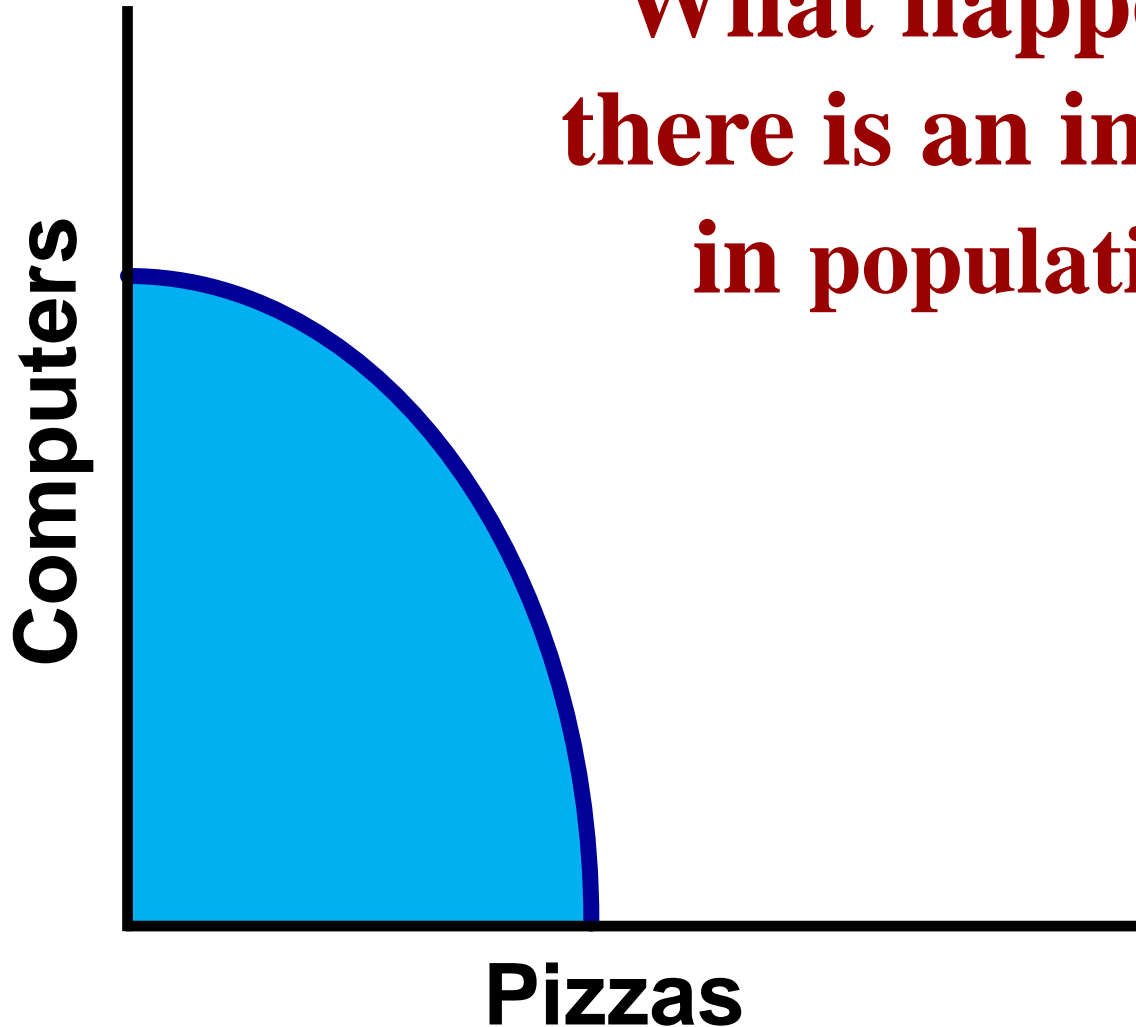
What if there is a change?

3 Shifters of the PPC

1. Change in resource quantity or quality
2. Change in Technology
3. Change in Trade

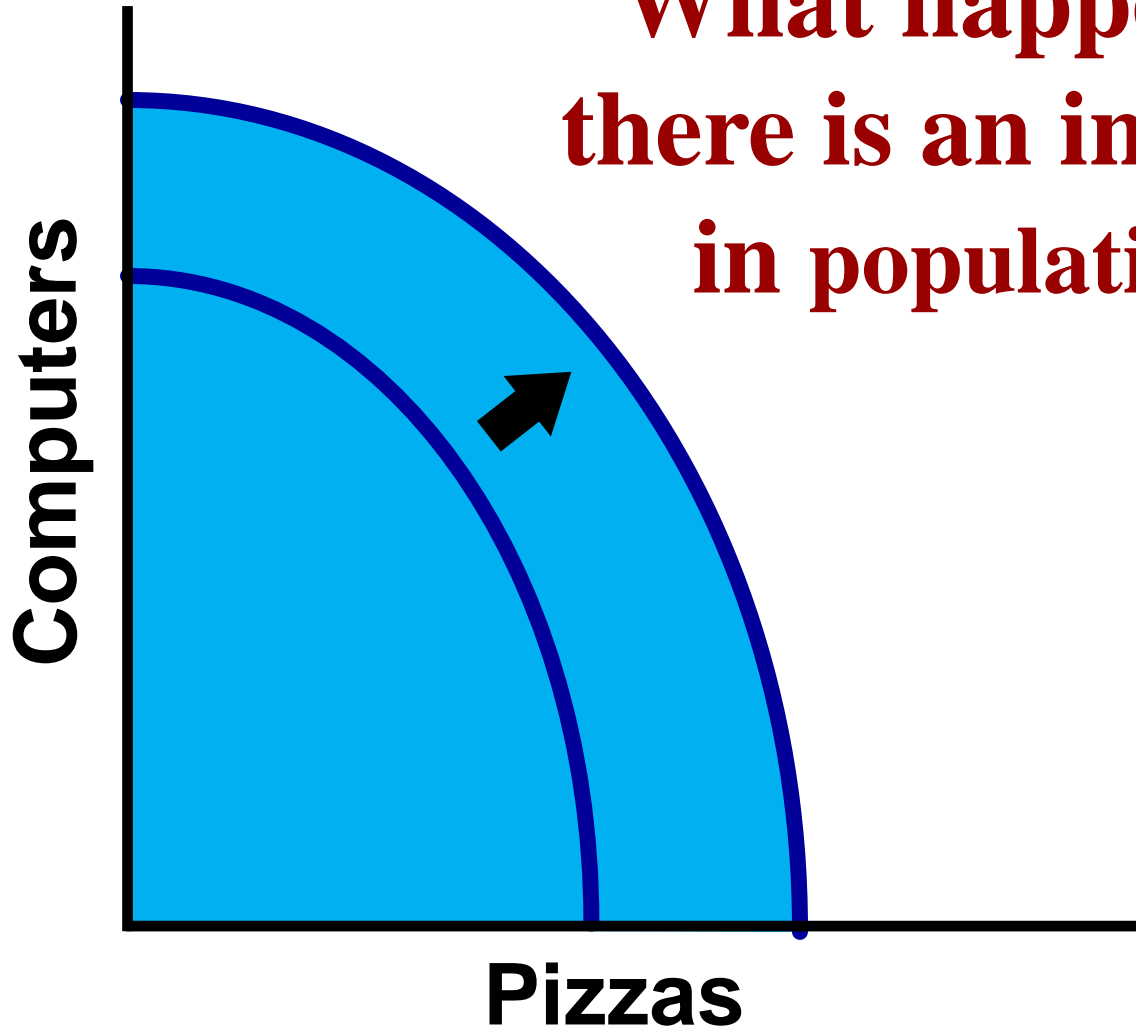
Production Possibilities

**What happens if
there is an increase
in population?**



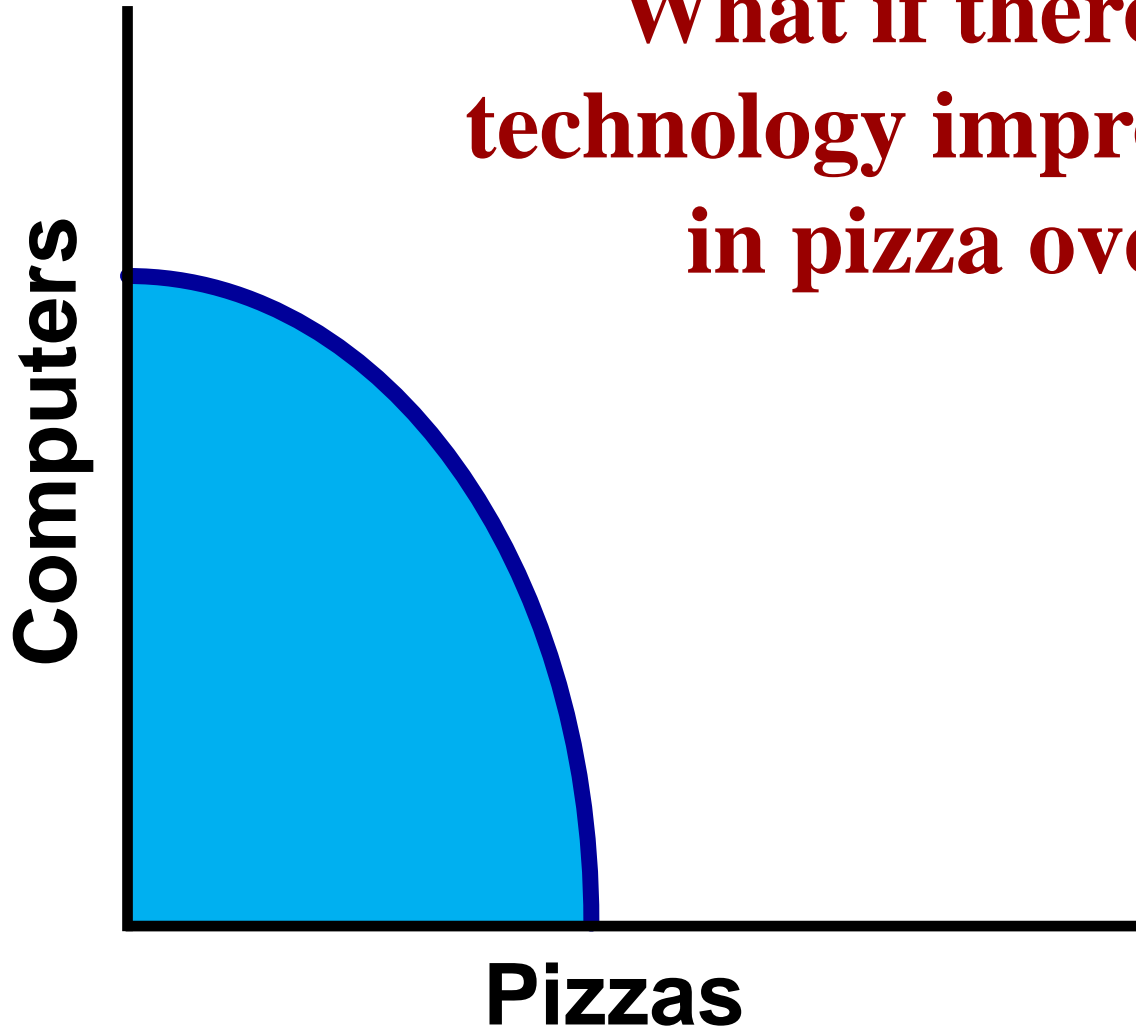
Production Possibilities

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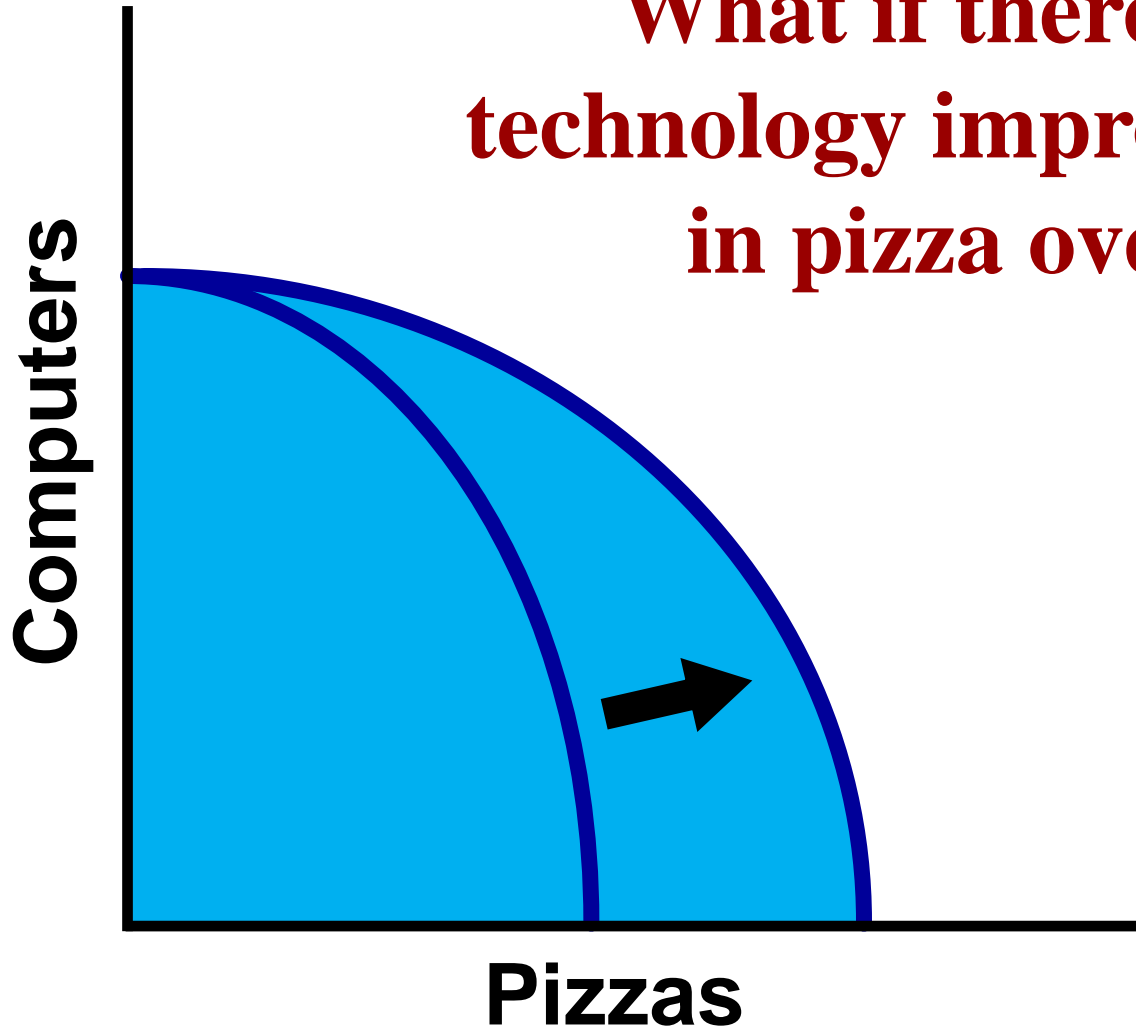
Production Possibilities

**What if there is a
technology improvement
in pizza ovens**



Production Possibilities

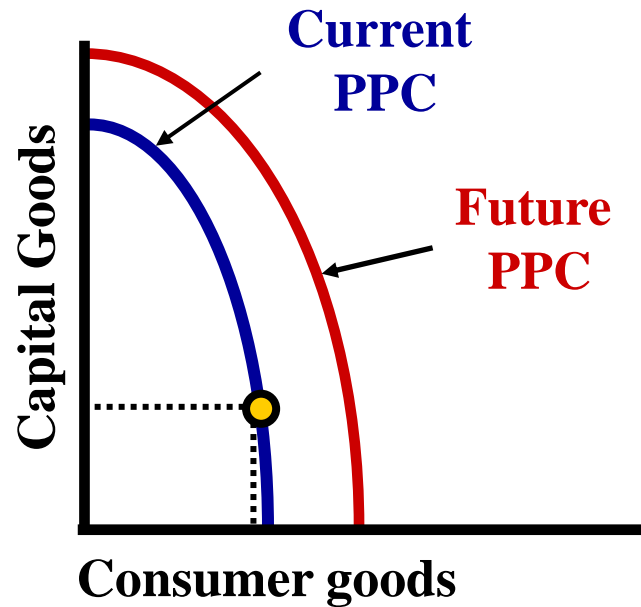
**What if there is a
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Capital Goods and Future Growth

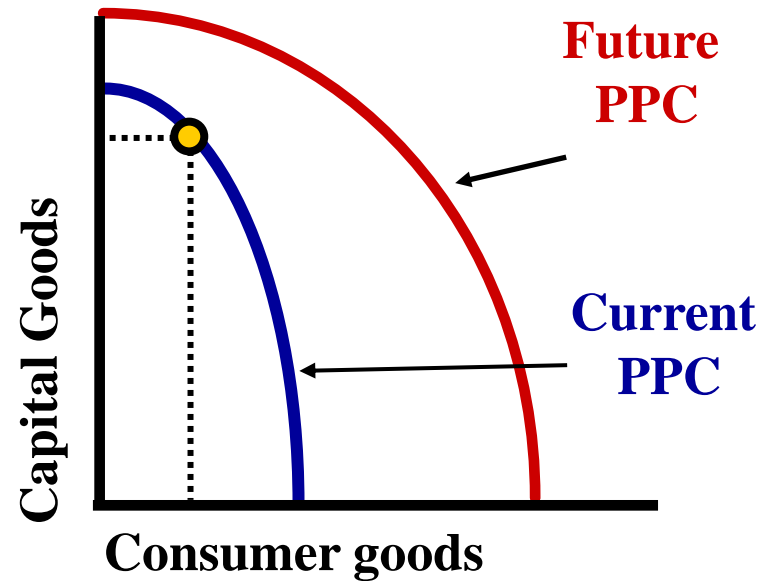
Countries that produce more capital goods will have more growth in the future.

**Panama – Favors
Consumer Goods**



Panama

**Mexico – Favors
Capital Goods**



Mexico

PPC Practice

Draw a PPC showing changes for each of the following:

Pizza and Computers (3)

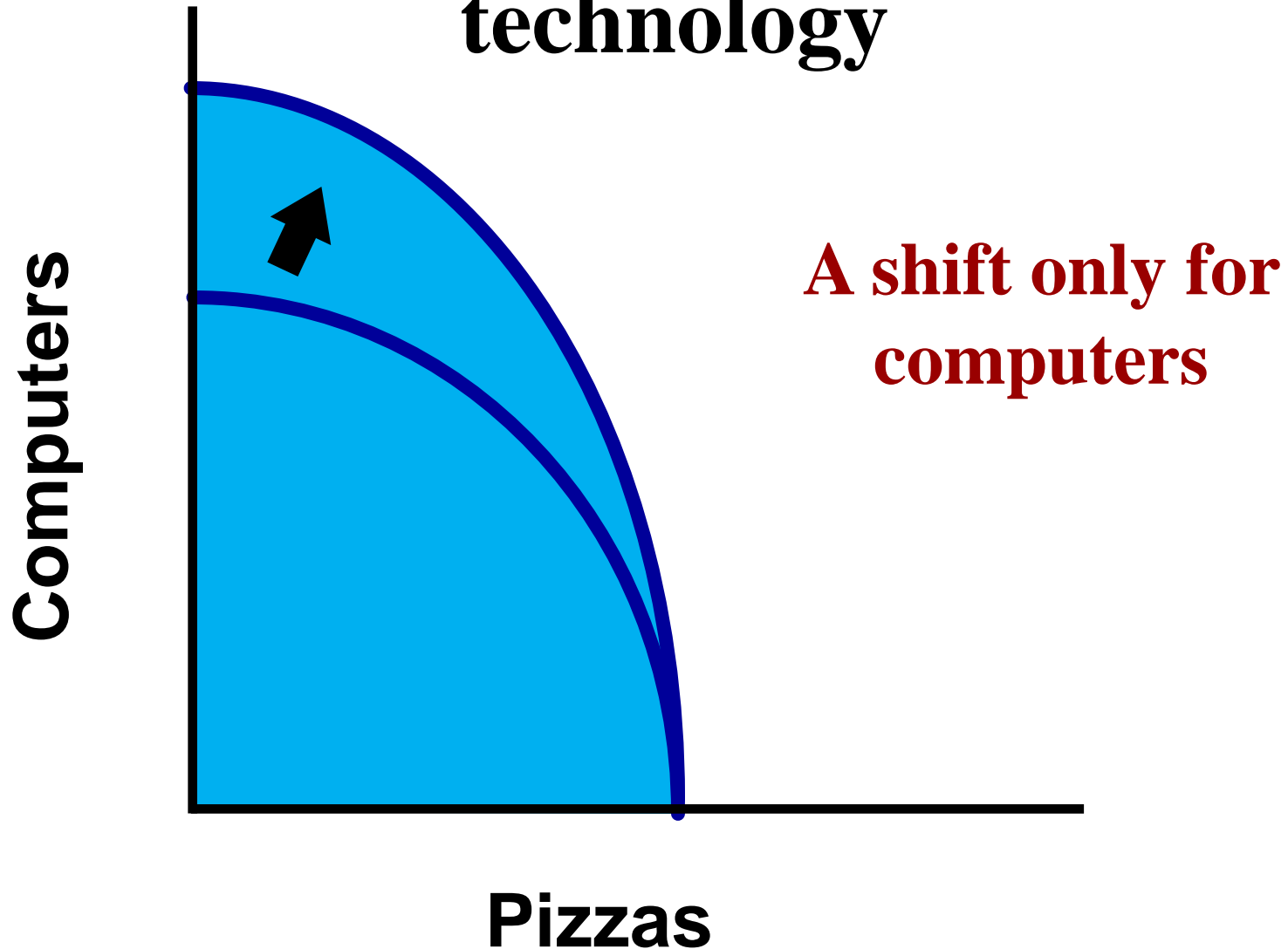
- 1. New computer making technology**
- 2. Decrease in the demand for pizza**
- 3. Mad cow disease kills 85% of cows**

Consumer goods and Capital Goods (4)

- 4. Destruction of power plants leads to severe electricity shortage**
- 5. Faster computer hardware**
- 6. Many workers unemployed**
- 7. Significant increases in education**

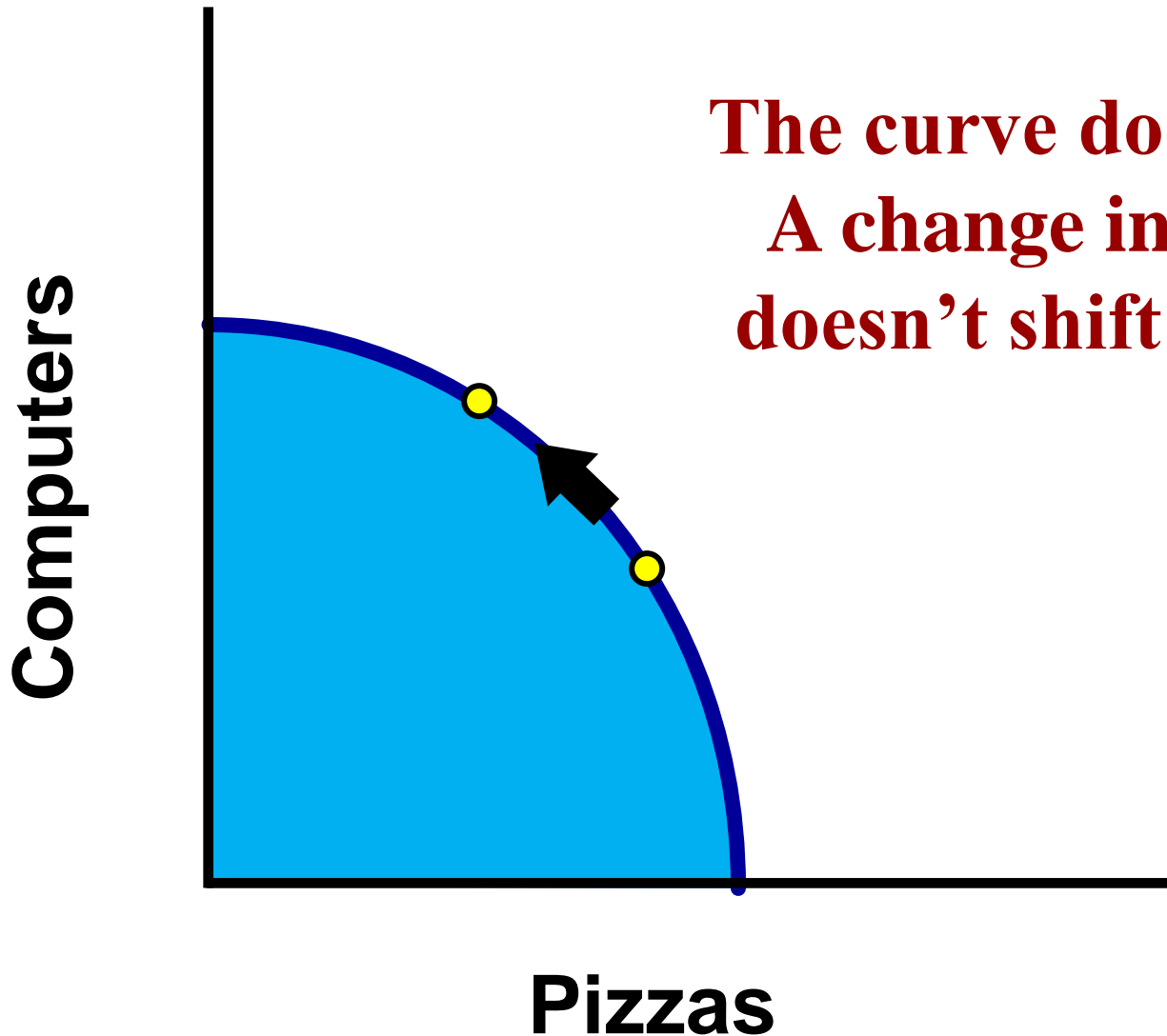
Question #1

**New computer making
technology**



Question #2

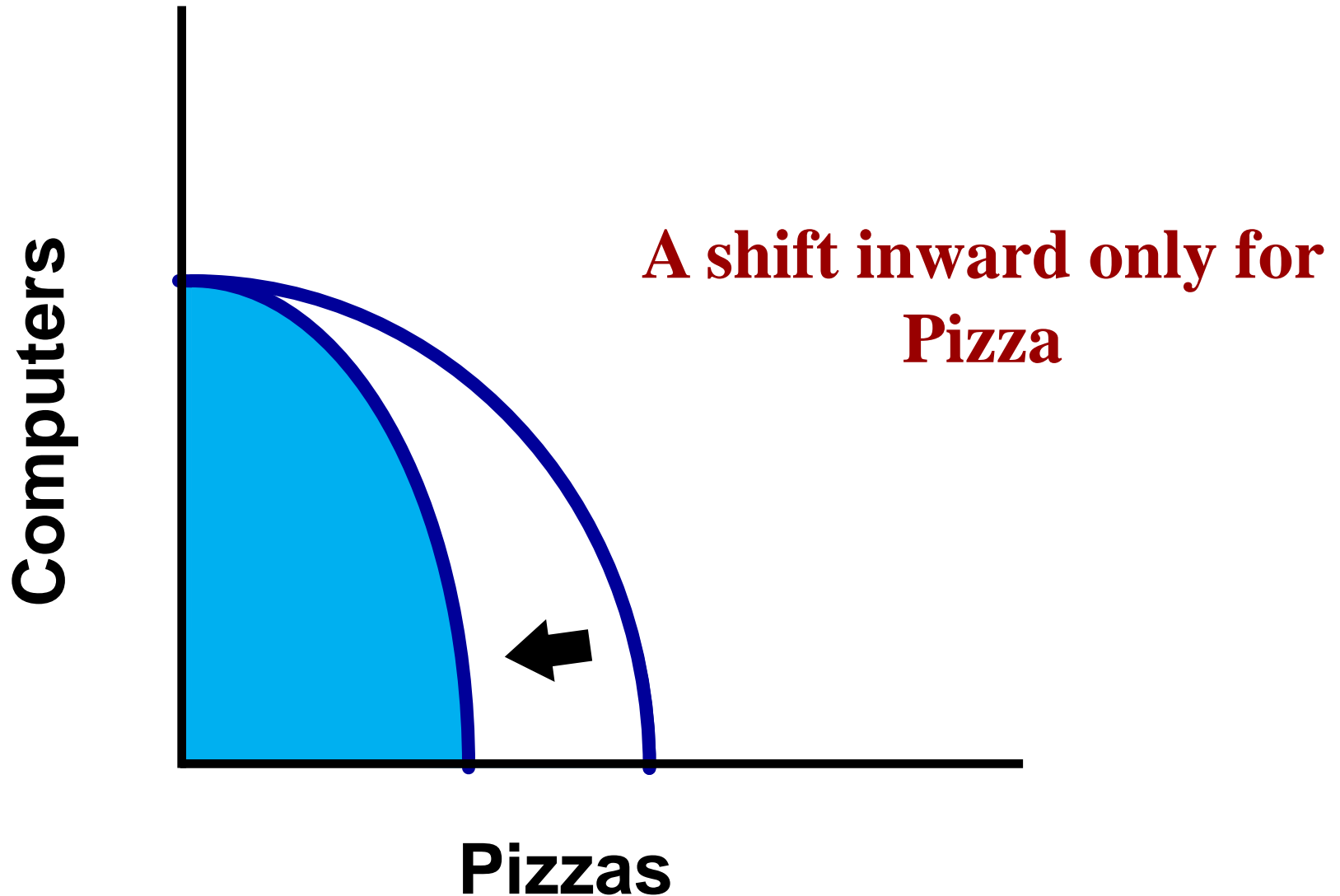
Decrease in the demand for pizza



**The curve doesn't shift!
A change in demand
doesn't shift the curve**

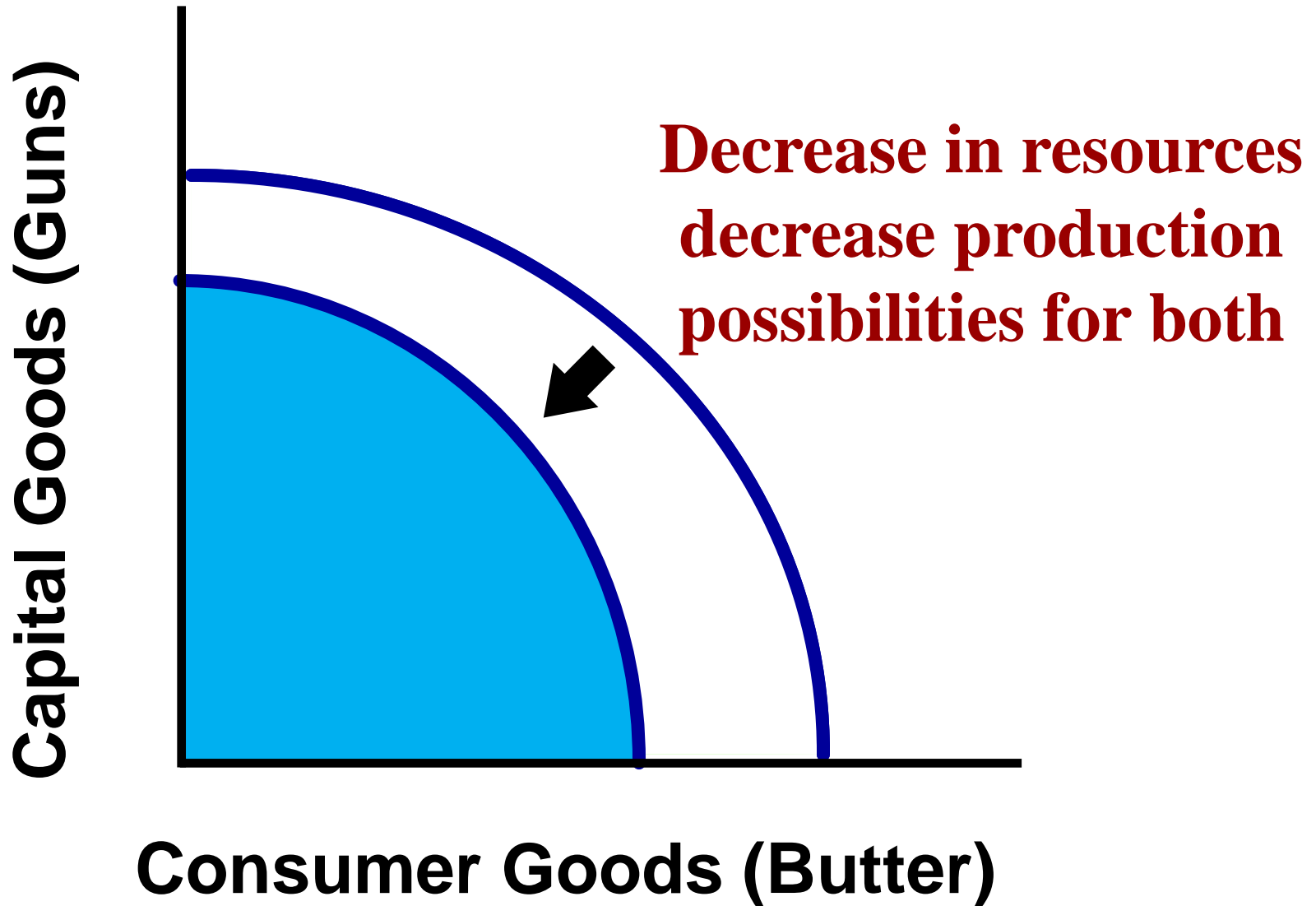
Question #3

Mad cow disease kills 85% of cows



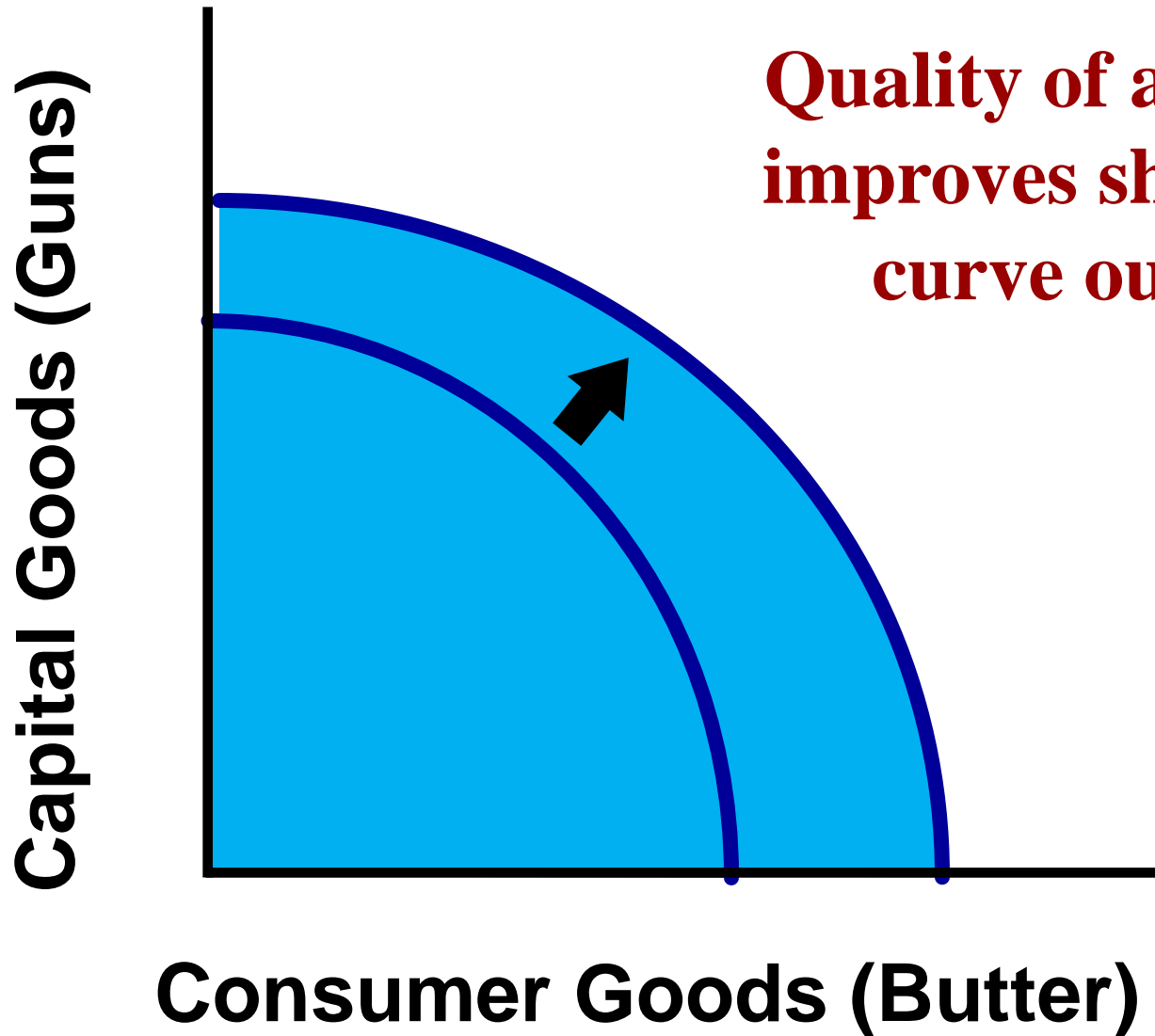
Question #4

Destruction of power plants



Question #5

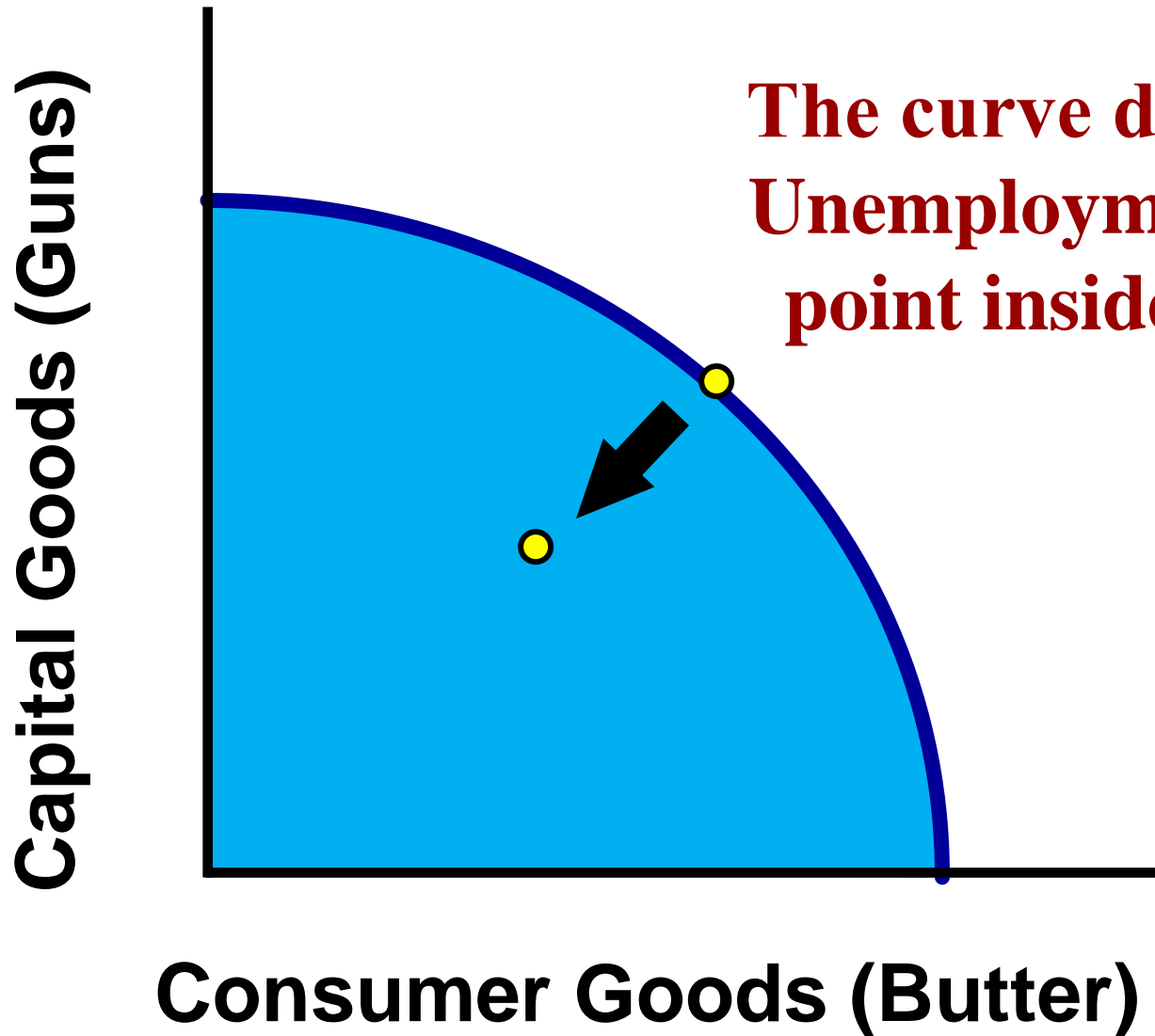
Faster computer hardware



Quality of a resource improves shifting the curve outward

Question #6

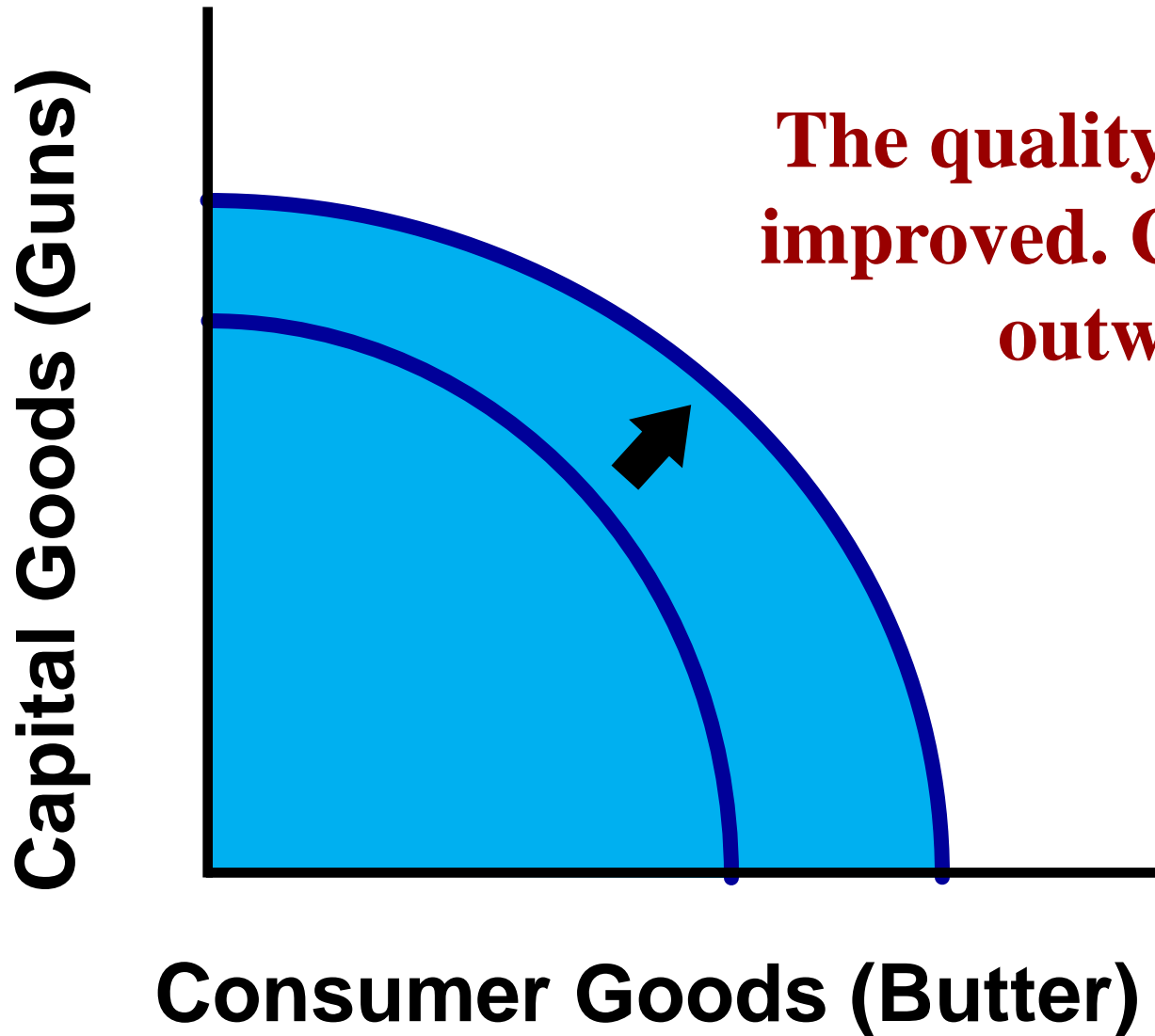
Many workers unemployed



**The curve doesn't shift!
Unemployment is just a
point inside the curve**

Question #7

Significant increases in education



The quality of labor is improved. Curve shifts outward.

Extra graph to manipulate or add to powerpoint or questions

