

Production Possibility Frontier/Curve

Definition

PP Curve = a diagram representing the maximum amount of goods or services an economy can produce when all of its resources are being used efficiently

Production Possibility Frontier/Curve

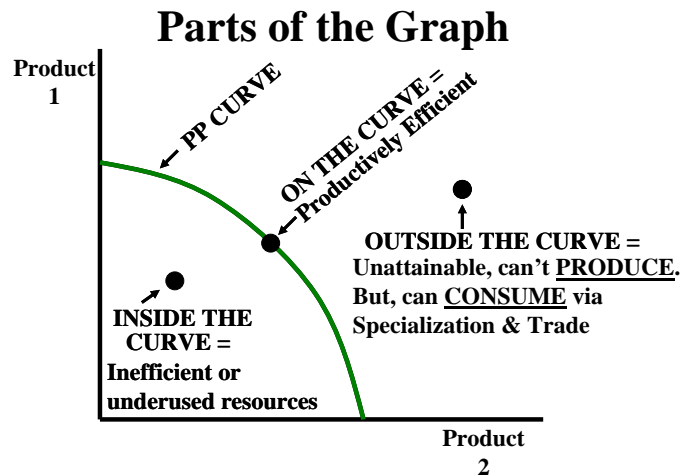
5 Shifters

1. Increase the productive labor force (# of people or productivity).
2. Increase the quantity or quality of natural resources.
3. Increase the quantity and quality of capital.
4. Increase health and education.
5. Increase technology.

Production Possibility Frontier/Curve

Parts of the Graph

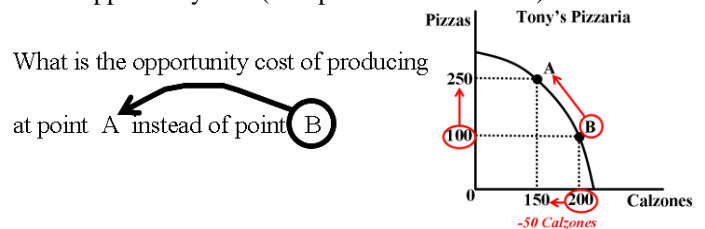
- On the curve
- Inside the curve
- Outside the curve



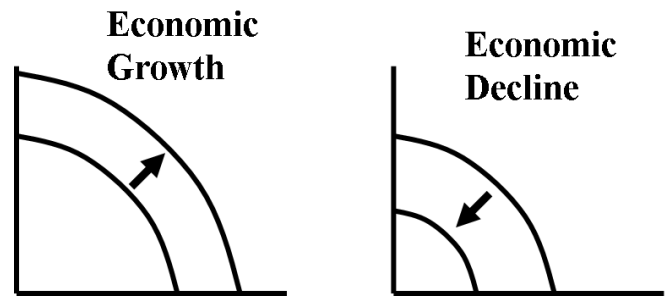
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Opportunity Cost Problems

1. Draw an arrow toward the production point you want the opportunity cost of.
2. Back up the arrow to the other point
3. Follow/draw lines to axis lines
4. Look at arrows, the one that's decreasing is the opportunity cost (# of products on that line)



Econ Growth & Econ Decline On PP Graph



3 Basic Economic Questions

All economies must answer

1. WHAT to produce
2. HOW to produce
3. FOR WHOM to produce

Memory Trick: the letters are WHF
So think of a combination of the texting abbreviations for wth and wtf, combine them w/o the t and you get WHF... what, how, & for whom

Traditional Economy

How are the 3 Q's decided?

Command Economy

How are the 3 Q's decided?

Market Economy

How are the 3 Q's decided?

Traditional - customs or habit

Example: you're father is a hunter, then you will be a hunter

Command - The **Government** makes all of the decisions

Market - The **people** have the freedom to make all the decisions for themselves, it happens through the **interaction of buyers and sellers.**

Circular Flow Product Market Factor Market

Circular Flow = flow of economic activity in a market economy, the diagram shows the exchange of

Resources (factors of production/CELLS)
Products &
Money

Product Market = where goods & services are bought and sold. Example: supermarket or any store

Factor Market = where the factors of production like labor are bought and sold. Example: factory or any place where people are hired