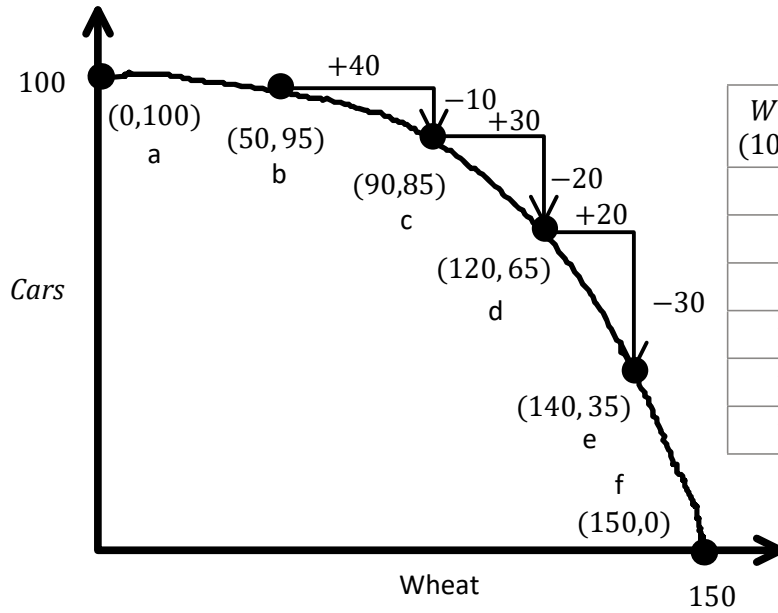


E101 - 1.2 - Production Possibility Frontier PPF

Production Possibility Frontier (PPF) - a graphical representation of the various combinations of maximum output that can be produced from the available resources and technology.



Wheat (1000kg)	Cars
0	100
50	95
90	85
120	65
140	35
150	0

Three assumptions that lie behind the prediction possibilities curve are full employment, the use of the best technology, and productive efficiency.

Movement	Gains in (1000kg) Wheat	Opportunity Cost in Cars	Opportunity Cost per (1000kg) Wheat
a -> b	50	5	0.1
b -> c	40	10	0.25
c -> d	30	20	0.66
d -> e	20	30	1.5
e -> f	10	35	3.5

$$\text{Opportunity Cost of Wheat} = \frac{5 (000) \text{ kg of Wheat}}{50 \text{ Cars}} = \frac{1}{10} = 0.1$$

Law of Increasing Cost - as an economy's production level of any particular item increases, its per-unit cost of production rises

