

Ch.2 Production Economic Growth and Trade

- Production Possibilities frontier (PPF): shows all combinations of two goods an economy can possibly produce based on the most efficient uses of land, labor, capital, and Technology
- Land: Natural resources
- Labor: workers
- Capital: Machinery (physical capital) and human capital
- Entrepreneur ability (including technology)
- Production Efficiency: goods and resources are produced at their lowest possible opportunity cost
- Allocative efficiency: The mix of goods and resources are exactly what society needs
- The slope of the PPF is the opportunity cost of the good on the horizontal axis
 - The opportunity cost of the good on the vertical axis is the inverse
- When looking at two graphs the graph with the steeper slope is the larger slope (larger opportunity cost)
- PPF will realistically be a curved line
- Comparative advantage is what you look for in trade (see ch.1 notes)
- There are costs to trade
 - Transport
 - Communication
 - However costs have been declining because of globalization
 - Dimensioning returns: The more a nation specializes the less their additional gains
- Governments often limit trade despite its benefits
 - To help certain industries
 - In response to a recession
 - To remain independent

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