Dynamic inefficiency

It occurs if firms do not take into account all the future cost and benefits from investment.If future benefits are uncertain,investing in R & D will lead to an under investment in the economy,which will reduce the socially optimum level of output overtime.

It can be indicated that a firm LRAC curve will shift upwards as show below or PPC curve shift to left.

Static Efficiency

Both productive and allocative efficiency can be regarded as examples of Static efficiency .i.e. they are concerned with the allocation of scare resources at a particular moment in time. Ex: Can a firm produce 1 million more cars cheaply by using more labour and less capital? All the points on PPC boundary shows that country is undergoing Static efficiency (it means Productive and allocative efficiency)

O/N 2017 P-3

1 In an economy no one can be made better off without making someone else worse off.

What can be deduced from this?

A Individuals are the best judges of their own well-being.

B Individuals can be relied upon to behave rationally.

C The distribution of income is socially optimal.

D The economy's resources are allocated efficiently.

Important points

- PC productively and allocatively efficient in LR but only allocative efficient in short run
- Imperfect markets are neither productively or allocatively efficient in short run aswellas long run.
- Any markets within features of contestablity, productively and allocativley efficient.