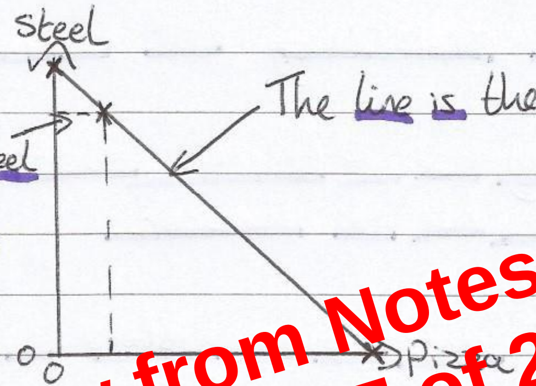
Production Possibility Frontier

The production possibility ~~border~~ frontier is a economic model so it includes assumptions.

e.g 1 Assumptions = 1) 2 types of goods
2) Resources can be switched easily between the goods

The production possibility frontier shows us what production is possible.



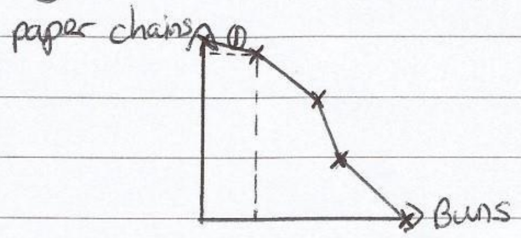
Line is less steel more pizza

The line is the PPF → The maximum possible production using all resources.

Gradient of line shows opportunity cost.
Straight line so gradient doesn't change so opportunity cost doesn't change.

A more realistic model.

e.g 2 Assumptions = 1) Resources aren't easily switched.



① We move inefficient paper chain resources to make buns for a small opportunity cost.
Here the gradient changes so the opportunity cost changes.

Specialisation

Specilisation = Focusing of resources in the production you're most efficent

Who Specialises?

→ Countries - UK in services
→ Regions - Sheffield in steel
→ Business - Halifax in banking
→ individuals - Me in A-Levels

Division of Labour

Division of Labour = ~~Bsm~~ Splitting up Labour to allow for a efficient production line

Developed by Adam Smith
- Studied a pin factory
- Said : Production should be broken down
  A series of tasks should be created

Advantages

- Allows people to do what they are good at.
  → more accurate → save time
- Less skill
  → lower pay → less training → Can be done by machine

4) Non-money financial assets -> Things owned,
-> shares = very liquid
-> Art = Not liquid
-> How quickly can they be converted into cash without loss of value.

5) Money substitutes -> About borrowing (not your money).
e.g credit card -> widely accepted
-> no store of value
-> can't be turned into cash

Economists views of managing the economy

Classical economies = Early Free Market Economies

These were about: choice
Competition
Freedom

This was supported by Adam Smith

However, this changed in the 1930's
- Great Depression

New theory supported by John Maynard Keynes
- wanted government intervention

This changed again in the 1970's
- Government was too powerful
so
- Economies moved back to Free Market

This was called Neo Classical
- Supported by Margaret thatcher

Now we have a mix of both