MicroEconomics

01/29/2013

PPF Elaboration

- Its primary goal is to illustrate trade-offs facing an Economy / that produces two good. (shows you the maximum quantity of one good that can be produced that can be produced for any other good. Example: Economy: Tom
Wants: Fish
Coconuts

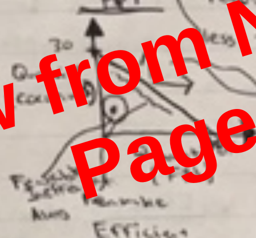
Natural Resources
Water (fishing)
Stones
Trees
} Fixed.

- Natural Resources Are limited.

Factors of PPF to Understand

1. Use PPF
2. Efficiency
3. Opportunity cost
4. Growth

PPF

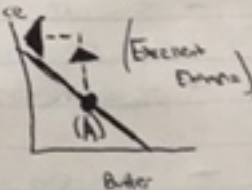


If Tom spends time [illegible] resources [illegible] fish he will have less time & other resources to collect coconut.

Any point outward is not feasible.

This shows you feasible combination of fish and coconuts Tom can produce with his fixed resources

PPF: Also highlights what is feasible & Non-feasible to produce

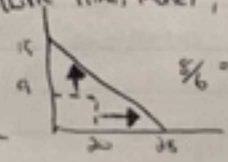


(Efficient Points).

- Production Efficiency: ~~Efficiency (Production)~~ = Cannot produce more of one good without producing less of another good.
- All points on the PPF are Efficient & feasible. *
- Allocative Efficiency: Cannot make someone better-off without making someone worse off. Suggests that goods or resources are allocated so that consumers are well off. (non specific).

Opportunity Cost: A True Cost of a Good. What you must sacrifice to achieve what you want or where you need to be. Ex: (Like Time, Money, Effort, energy to make a meal).

Ex:



The slope of the PPF Is considered the Opportunity Cost

$\frac{8}{6} = \frac{1}{x} = (x = 3/4)$ Meaning, Each Fish costs him 3/4ths of a coconut. *

Preview from Notesale.co.uk
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