

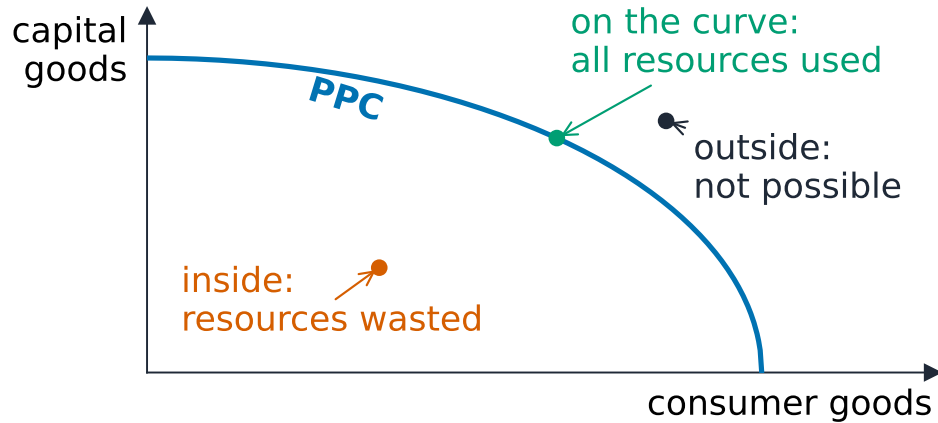
Exercise walk-through

1.4

Production possibility curve (PPC) diagrams

IGCSE Economics

The production possibility curve



on = efficient · inside = inefficient · outside = unattainable

The **PPC** shows the most a country can make of two goods.

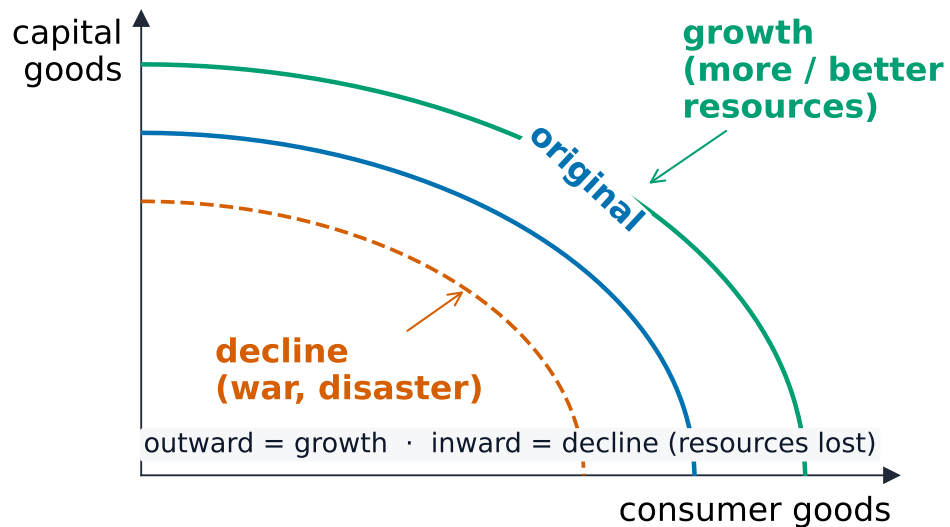
- on the curve – efficient
- inside – wasting resources
- outside – not yet possible

Reading the diagram

The PPC is a curve that bends from one axis down to the other (it usually bows outward, away from the corner):

- A point **on** the curve: all resources are used fully. The economy makes the most it can.
- A point **inside** the curve: resources are wasted or not all used – for example, there is **unemployment**. The economy could make more.
- A point **outside** the curve: this is impossible now. There are not enough resources to reach it.

Shifting the PPC



Economic growth shifts the whole curve **outward** (more or better resources). Decline (war, disaster) shifts it **inward**.

What moves the curve, and what it costs

Outward

More resources or better ones – new technology, more **workers**, better skills.

Inward

War, disaster or the exhaustion of a resource: **economic decline**.

Non-renewable resources

Non-renewable resources – oil, coal, minerals
– can run out, so using them today moves tomorrow's curve inward.

Trade-off

Every point on the curve is a **trade-off**: more of one good is less of the other, and the slope says by how much.

Inside the curve is waste, not choice – unemployment or idle capacity, where more of both goods is available at no cost.

Opportunity cost, continued



Consumers choosing what to buy at a busy market – scarcity forces everyone to make choices

Exercises 2.1-2.3

2.1 State what a point **inside** the PPC shows.

[1]

2.2 Define the term *production possibility curve*.

[2]

2.3 State two causes of an outward shift of the PPC.

[2]

Exercises 2.1·2.3

2.1 State what a point **inside** the PPC shows.

[1]

2.1

- a point inside the PPC means resources are **not all used**
- **waste / unemployment** – the economy could make more (K)

2.2 Define the term *production possibility curve*.

[2]

2.2

- a **production possibility curve** shows the **maximum** of two goods an economy can make when it uses all resources fully (K)

2.3 State two causes of an outward shift of the PPC.

[2]

2.3

- any **two** of: **more resources** (bigger workforce, more land) / **better resources** / **new technology** / **training** (K, K)

Exercises 3.1-3.2

3.1 An outward shift of a country's PPC represents:

[1]

☐

A unemployment

B economic growth

C opportunity cost

D a movement along the curve

3.2 Using a PPC diagram, explain the opportunity cost of an economy making more capital goods.

[4]

Exercises 3.1·3.2

3.1 An outward shift of a country's PPC represents:

[1]

☐

- A unemployment
- B economic growth
- C opportunity cost
- D a movement along the curve

3.1 B

- an **outward shift** of the PPC is **economic growth** (K)
- A is inside the curve; C is a movement along it; D is not a shift

3.2 Using a PPC diagram, explain the opportunity cost of an economy making more capital goods.

[4]

3.2

- draw a labelled PPC: capital goods vs consumer goods (K)
- to make more capital goods the economy **moves along** the curve (An)
- it must make fewer consumer goods – the **forgone consumer goods** are the opportunity cost (An)

Exercise 3.3

3.3 Discuss whether an economy should always aim to move its PPC outward. [8]

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3.3 Discuss whether an economy should always aim to move its PPC outward. [8]

3.3

- **for:** more of both goods, higher living standards, more jobs ($K + A_n$)
- **against:** growth may use up non-renewable resources, cause pollution, or need fewer consumer goods now (A_n)
- **judgement (Ev):** moving the PPC outward usually helps, but **sustainable** growth is better than growth that harms the environment