

1 The Study of Economics

2 The Production Possibility Frontier Model

3 Comparative Advantage and Trade



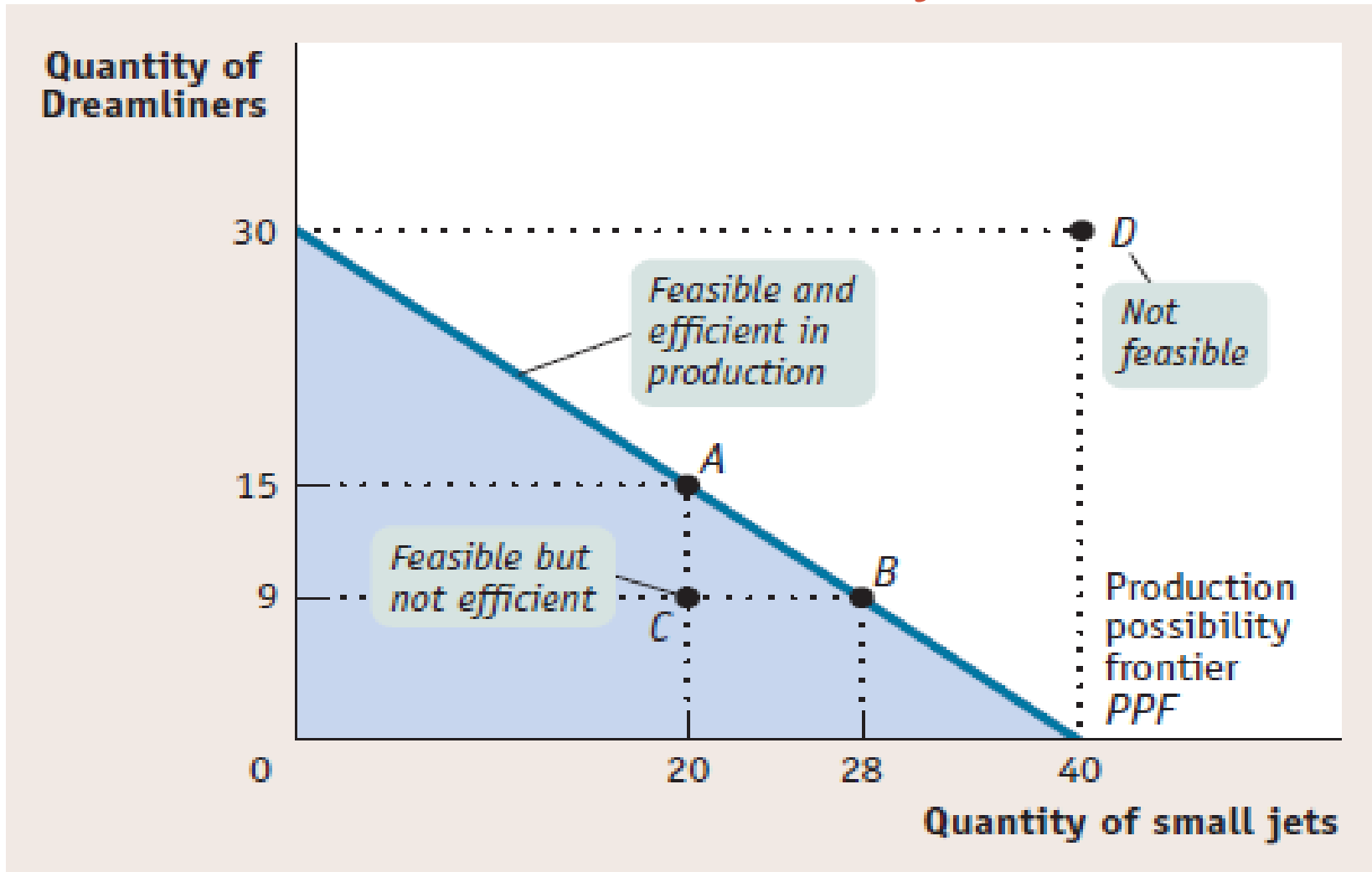
Trade-offs: The Production Possibility Frontier

- Someone makes a **trade-off** when they give up something to get something else.
- The **production possibility frontier (PPF)**
 - Illustrates the trade-offs facing an economy.
 - Shows the maximum quantity of one good that can be produced for any given quantity of the other.

Application: Boeing Dreamliner versus Smaller Jets



The Production Possibility Frontier

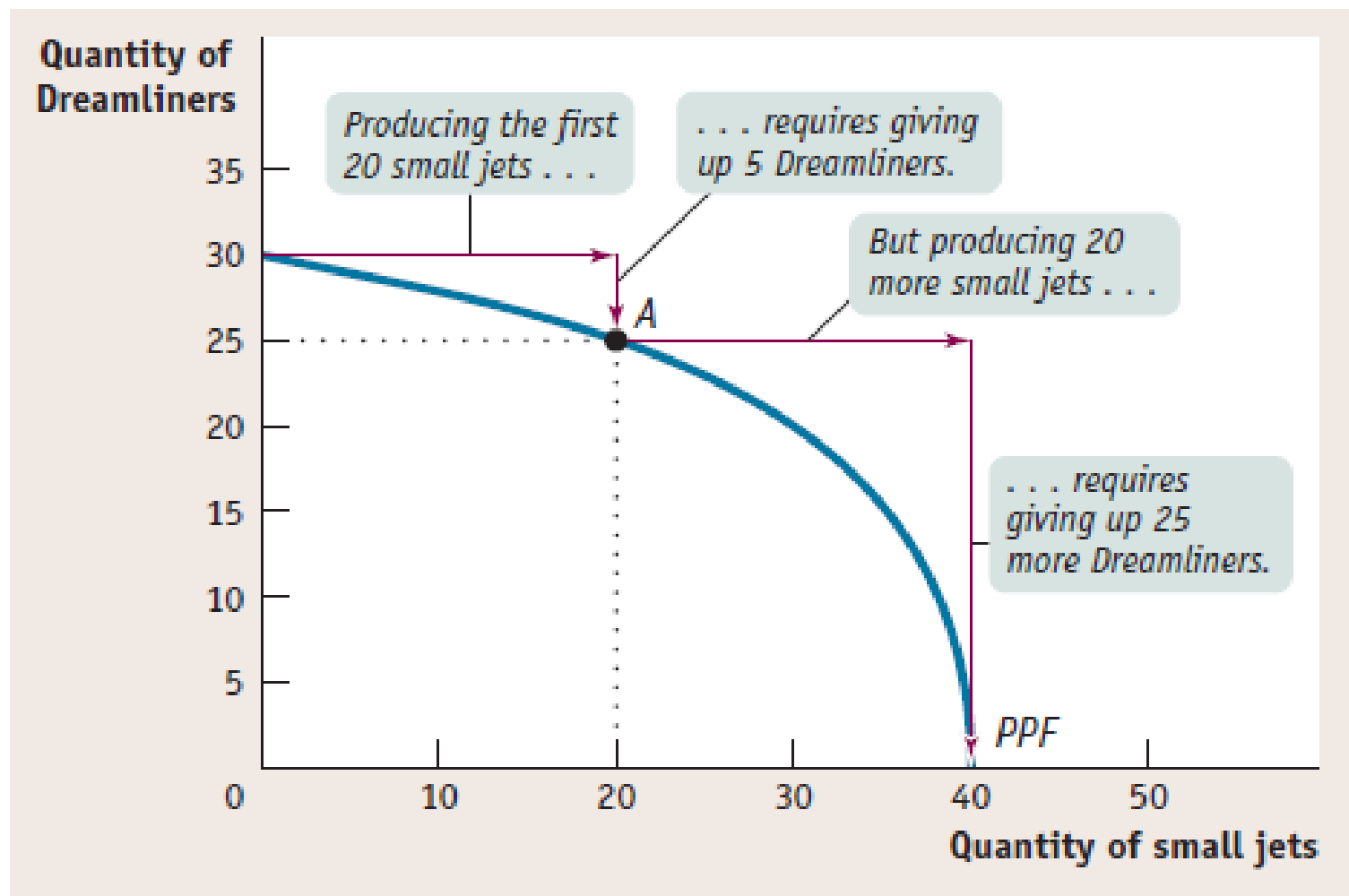


Efficiency

- The PPF illustrates efficiency.
 - An economy is *efficient in production* if it produces at a point on its PPF.
 - An economy is *efficient in allocation* if it allocates its resources so that consumers are as well off as possible.

Increasing Opportunity Cost:

“True Cost of Something is What You Give Up to Get It”



Economic Growth

- Economic growth allows a sustained rise in aggregate output.
 - Economic growth is shown as an outward shift of the PPF.
- There are two general sources of economic growth.
 - An increase in an economy's resources.
 - Progress in **technology**.

Economic Growth

