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