

Chapter 1.2 and 1.3

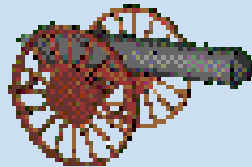
Opportunity Cost and the Production Possibilities Curve

Trade-offs

All individuals and groups of people make decisions that involve trade-offs.

•Guns Vs. Butter Trade-off

- Every country has limited resources and must make decisions between producing more guns



- or more butter



•Guns represent military goods and services. Butter represents all consumer goods and services.



Opportunity Cost

- Decision making Grid

	Alternatives	
	Sleep late	Wake early to study
Benefits	Enjoy more sleep More energy	Better grade Teacher/parent approval Satisfaction
Decision	Sleep late	Wake up Early
Opportunity Cost	Extra study time	Extra sleep
Benefits foregone	Better grade Teacher/parent approval Satisfaction	Enjoy more sleep More energy

Thinking at the Margin

- When you decide how much more or less to do, you are **thinking at the margin**.

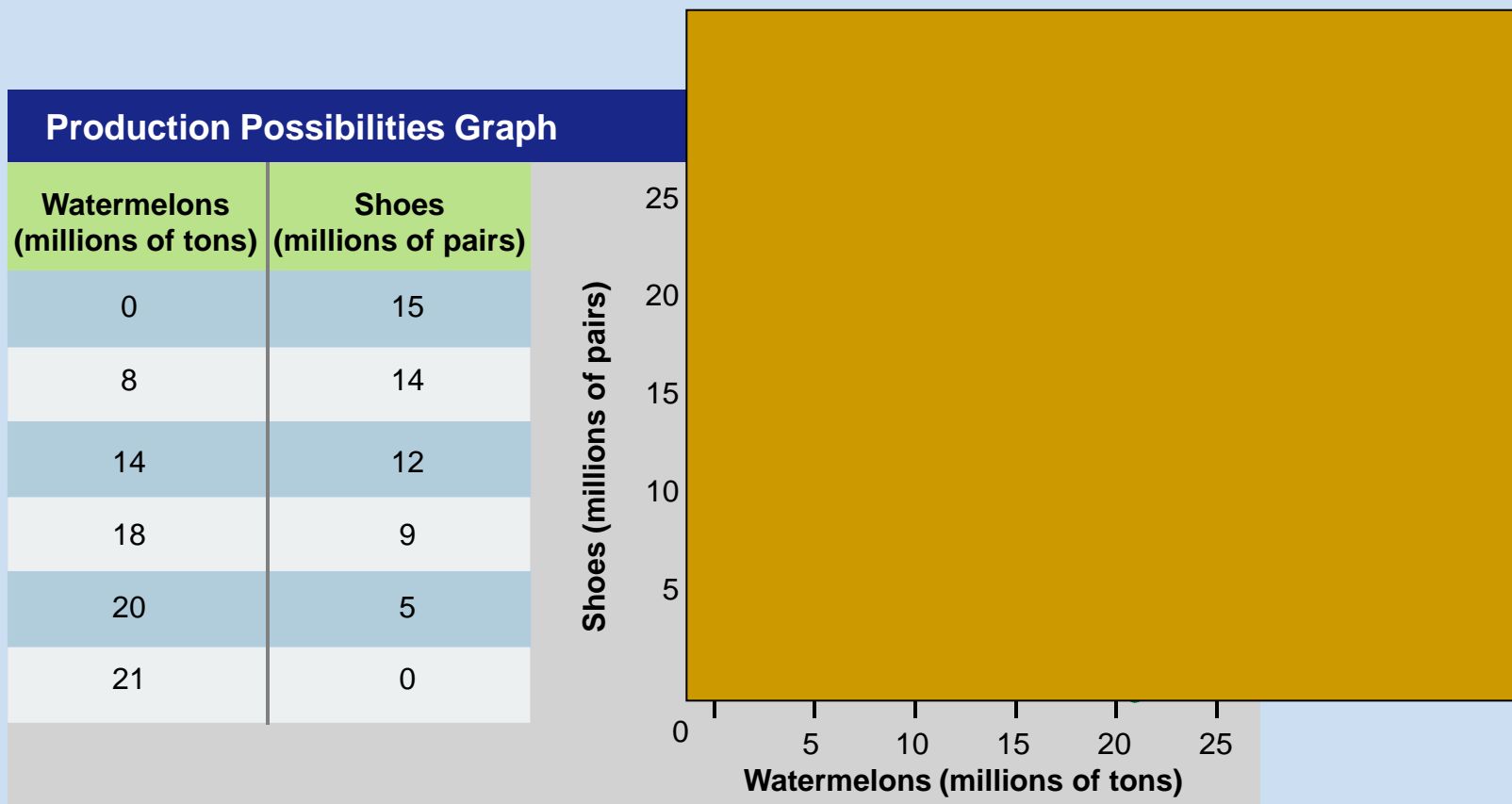
<u>Options</u>	<u>Benefit</u>	<u>Opportunity Cost</u>
<u>1st hour of extra study time</u>	<u>Grade of C on test</u>	<u>1 hour of sleep</u>
2nd hour of extra study time	Grade of B on test	2 hours of sleep
3rd hour of extra study time	Grade of B+ on test	3 hours of sleep

Thinking at the margin with the snooze button



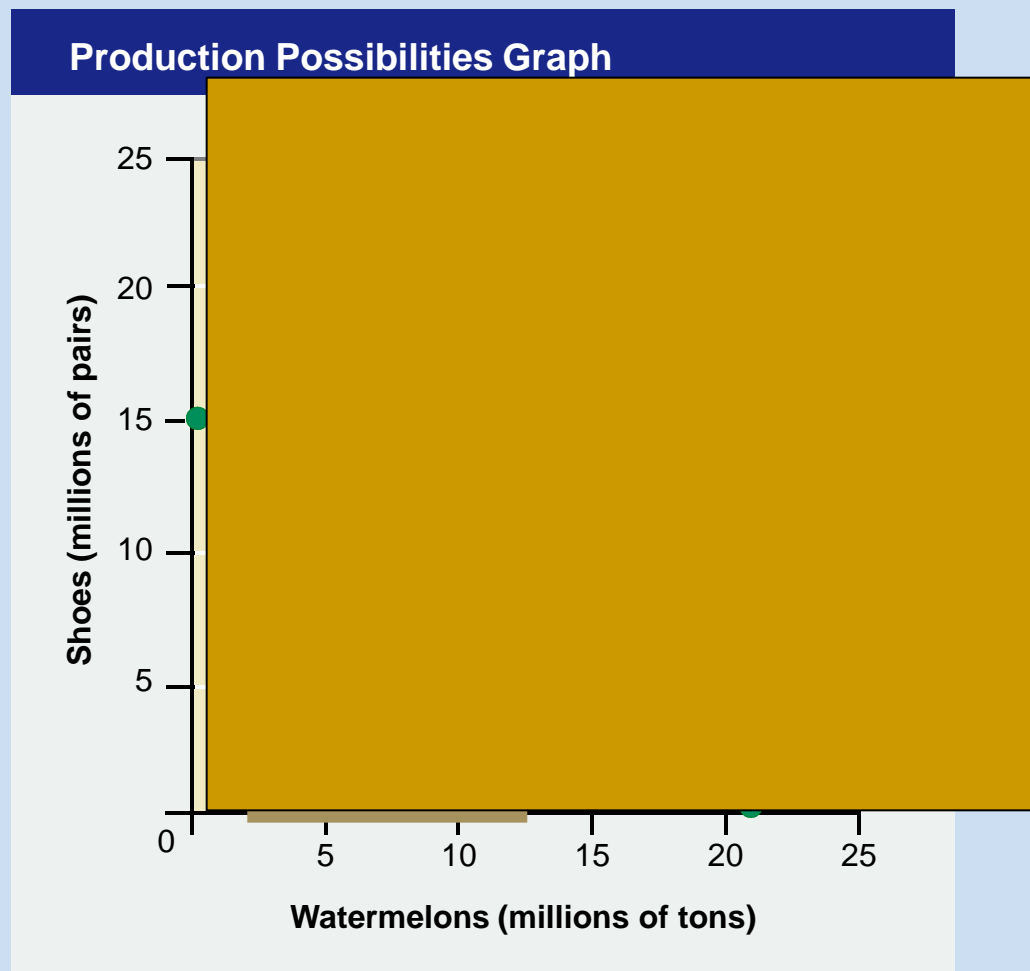
Production Possibilities

- A production possibilities curve (graph) shows alternative ways that an economy can use its resources.



Efficiency

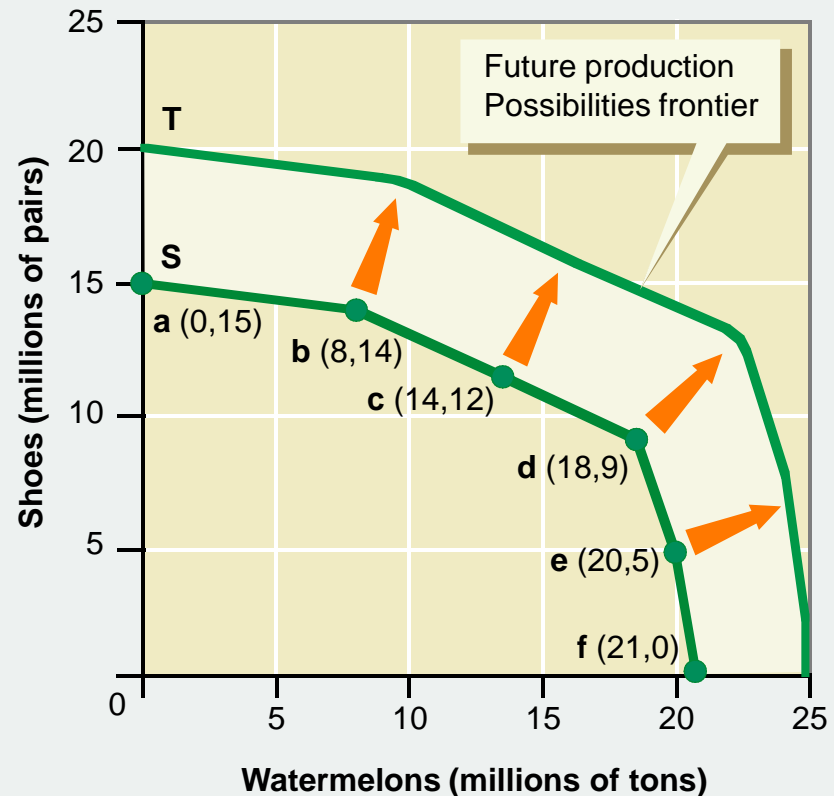
- **Efficiency** means using resources in such a way as to maximize the production of goods and services. An economy producing output levels on the production possibilities frontier is operating efficiently. Points underneath the curve mean that resources are not being used completely. That is called **underutilization**.



Growth

- Growth economy can increase its level of output and grow. production possibilities curve “shifts to the right.”
- The production possibilities frontier is the line that shows the maximum possible output for that economy.

Production Possibilities Graph



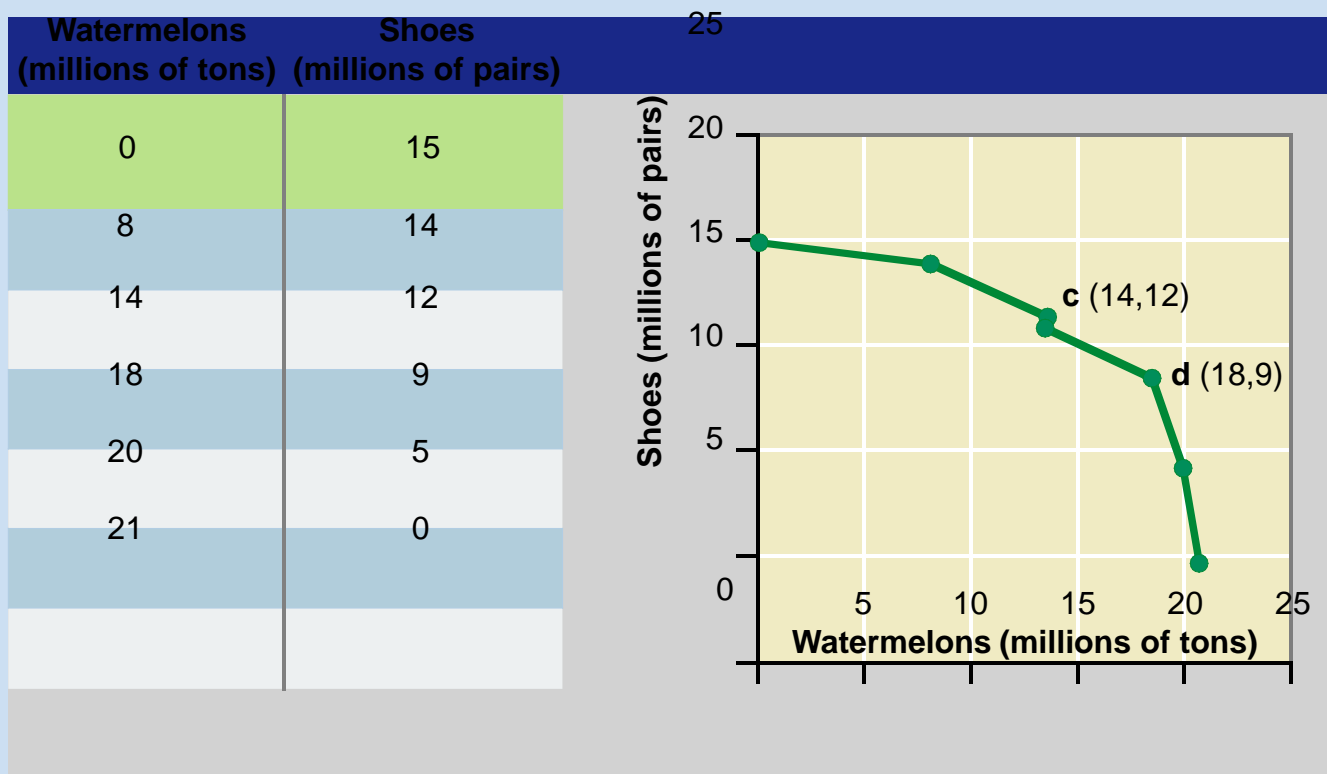
•Cost and law of Increasing Costs

- Cost = what we give up to choose one option over the other pg. 17
- **Law of Increasing Opportunity Cost-**
 - As you produce more of any good, the opportunity cost(this is the second item) will increase. More resources are needed to produce the second item (the one you decided to produce less of). Pg. 17
 - Why? Resources are NOT easily adaptable to producing both goods.

Cost

- A production possibilities graph shows the cost of producing more of one item. What is cost to move from C to D?

Production Possibilities Graph



Economics U.S.A. Video – Scarcity and PPC

1. What is the trade-off discussed with Alaska?



2. How could there be an increase in both “guns and butter” during WW2?



3. What is the trade-off for worker’s safety?

