

# CLASS NOTES

Class:	<b>XI</b>	Topic: <b>PRODUCTION POSSIBILITY CURVE (MICRO-ECONOMICS)</b>
Subject:	<b>ECONOMICS</b>	

## PRODUCTION POSSIBILITY FRONTIER

It is a graphical representation of all the possible combinations of two goods that can be produced by optimum (fuller) utilization of available resources and given technology

It gives us the maximum limit of goods & services that could be produced so, it is also known as

**Production Possibility Boundary** or **Production Possibility Frontier (PPF)**.

The production possibility **curve** is **also called transformation curve**, because when we move from one position to another, we are really **transforming** one good into another by shifting resources from one use to another.

### Properties of PPC

- **It is downward sloping because** to produce more of one we have to sacrifice a few units of another. Because resources were already being fully utilized.
- **PPC is concave shaped due to** increasing MRT i.e. to produce every additional unit of a commodity more and more units of another commodity are sacrificed.

{Reason of increasing MRT: Resources are not equally efficient.}

### CAN PPC BE A STRAIGHT LINE

A **PPC** curve **can** be a **straight line** only if the marginal rate of transformation (MRT) is constant throughout the curve. A MRT **can** remain constant only if both the commodities are equally constant and the marginal utility derived from their production is also constant.

### CAN PPC BE CONVEX TO THE ORIGIN

**PPC** is **convex** shaped because of decreasing marginal rate of transformation. It implies that less and less units of commodity sacrificed to gain an additional unit of another commodity

### WHAT DOES IT MEAN WHEN AN ECONOMY IS OPERATING ON PPC?

Every point on PPC indicates that resources are efficiently and fully utilised for the production of goods and services in the economy. Therefore, when a country operates on the PPC, the potential output is achieved, in terms of actual output.

## WHAT CAUSES SHIFT IN PPC?

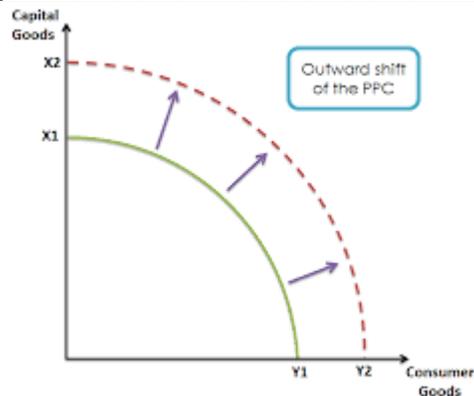
**Shifts** in the **production possibilities curve** are **caused** by things that change the output of an economy, including advances in technology, changes in resources, more education or training (that's what we call human capital) and changes in the labour force.

Shift can be either towards rightward or towards leftward, when there is a change in resources or technology with respect to both goods.

### RIGHTWARD SHIFT IN PPC:

When there is advancement or upgradation of technology and growth of resources of both the goods

Then Production Possibility Curve will shift to the right. This indicates the increase in production of



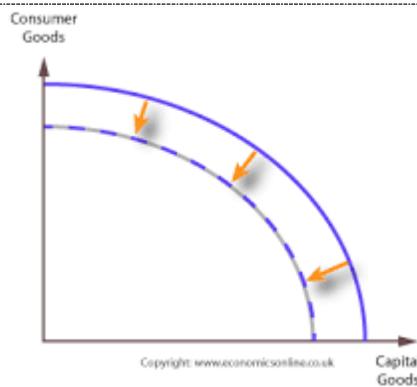
both the commodities.

### LEFTWARD SHIFT IN PPC:

When there degradation of technology and decrease of resources of both the goods

Then Production Possibility Curve will shift to the left. This indicates the decrease in production of

both the commodities.



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