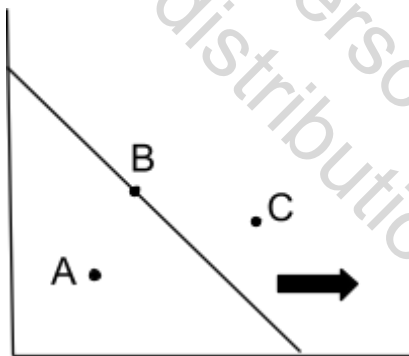


Basic Economic Concepts — Free Preview Production Possibility Curve Practice

The **Production Possibilities Frontier** (PPF/PPC) is a graphical model that shows the maximum combinations of two goods an economy can produce given its available resources and technology. Due to the law of increasing costs, the PPC is bowed outward and concave to the origin rather than a straight line, reflecting rising opportunity costs.

- Points on the PPC represent productive efficiency (B)
- Points inside the PPC indicate inefficiency or underutilized resources (A)
- Points outside the PPC are unattainable with current resources (C)
- Shifts of the PPC occur due to changes in resources or technology



Practice: here are the combination of goods each country can reach:

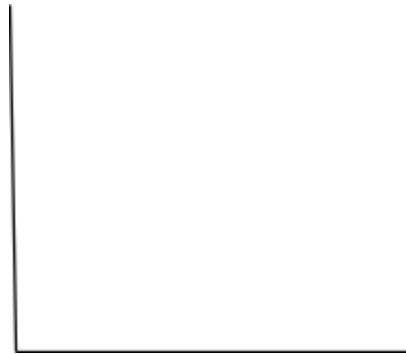
Malaysia (fish / bread)	
0	3
3	2
6	1
9	0

Draw the PPF if fish is the y-axis and bread is the x-axis + label for Malaysia:



Singapore (fish / bread)	
0	6
2	4
4	2
6	0

Draw the PPF if fish is the y-axis and bread is the x-axis + label for Singapore:



Calculate the opportunity cost for each country's good, opportunity cost of 1 fish = bread given up ÷ fish gained, opportunity cost of 1 bread = fish given up ÷ bread gained

- Malaysia must give up _____ units of bread in order to produce one unit of fish.
- Malaysia must give up _____ units of fish in order to produce one unit of bread.
- Singapore must give up _____ units of bread in order to produce one unit of fish.
- Singapore must give up _____ units of fish in order to produce one unit of bread.

Comparative advantage exists when an individual or country can produce a good at a lower opportunity cost than another. Even if one producer has an **absolute advantage** in producing all goods, specialization based on comparative advantage allows all parties to gain from trade.

Compare the opportunity costs for producing either fish or bread for both countries, which country has comparative advantage (lower opportunity cost) in which product? And, therefore, who should specialize in producing what?