

Opportunity Cost and Production Possibilities Frontier

Unit 1 Section 2

I can

- ▶ **Interpret production possibilities frontiers**
- ▶ **define and create examples of opportunity cost**



Vocabulary for this section

- ▶ **Opportunity Cost**
- ▶ **Trade off**
- ▶ **Paradox of value**
- ▶ **Production possibilities frontier**



Free enterprise economy

One in which consumers and privately owned business, rather than the government, make the majority of the **what, **how**, and **for whom** decisions.**



The Trade-Off

- ▶ The **trade off** is the alternative that must be given up when one choice was made.

What phone did you chose?



- ▶ The next best thing was your **opportunity cost**



The Trade-Off

- ▶ The **trade off** is the alternative that must be given up when one choice was made.

What you choose to do with your time?



The next best thing was your **opportunity cost**



The Trade-Off

- ▶ The **trade off** is the alternative that must be given up when one choice was made.

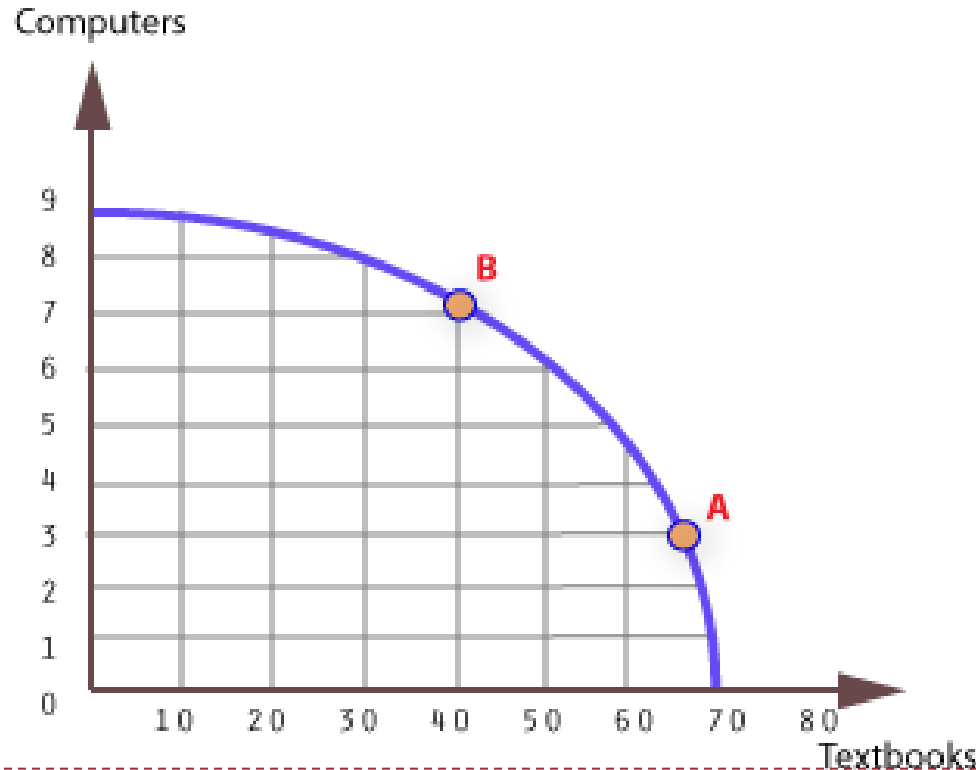
Where did you make with your resources?



- ▶ The next best thing was your **opportunity cost**

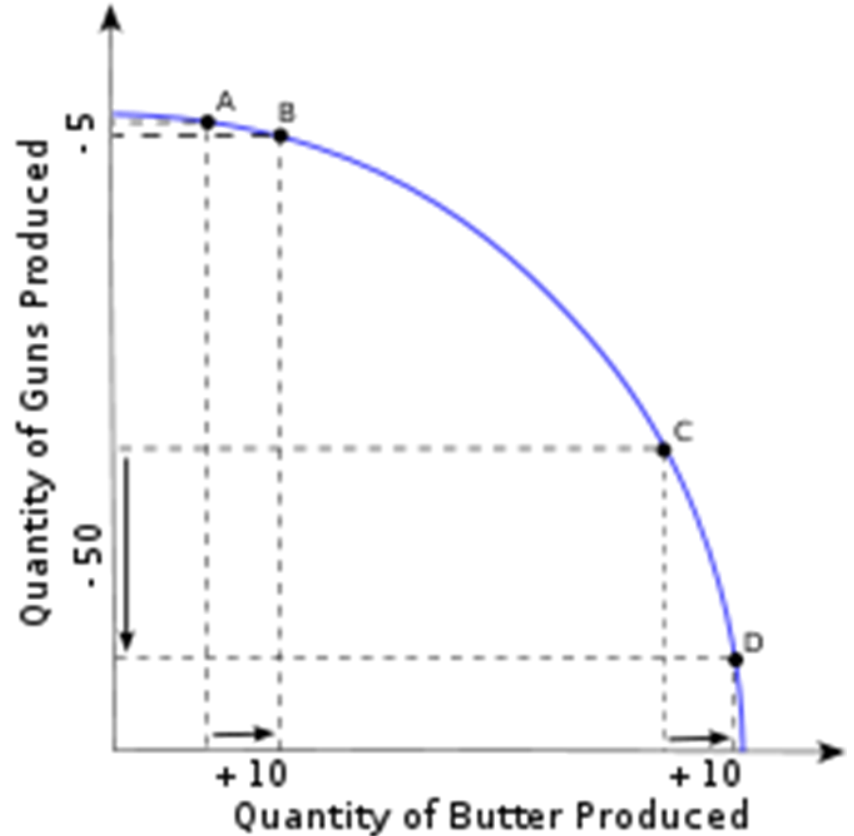
Economic model

Simplified equation, graphic, or figure showing how something works.



Production Possibilities Frontier

To illustrate
opportunity cost,
economists use the
production
possibilities frontier
or PPF.



How the PPF changes

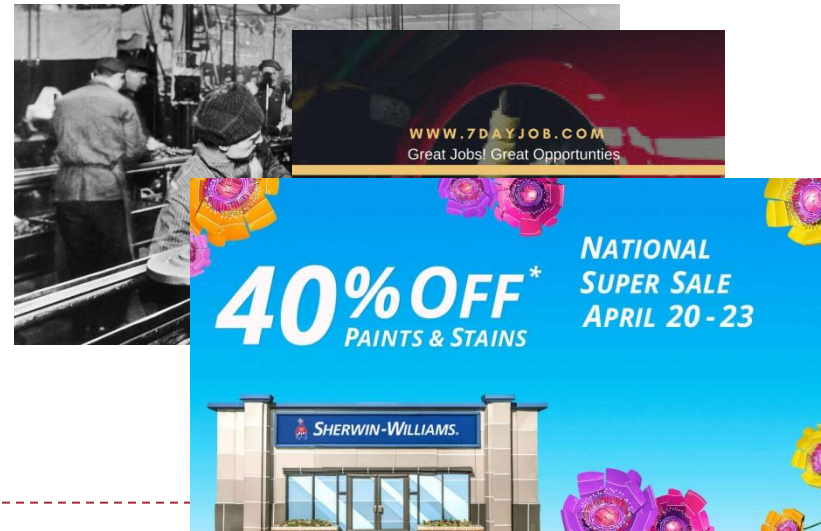
Productivity goes down

- ▶ Producers are idle
- ▶ Less workers
- ▶ No resources



Productivity goes up

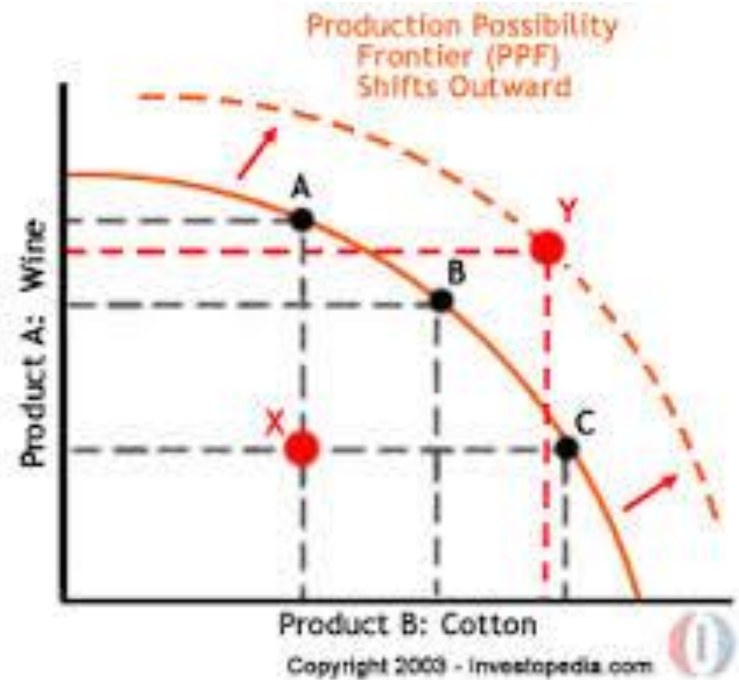
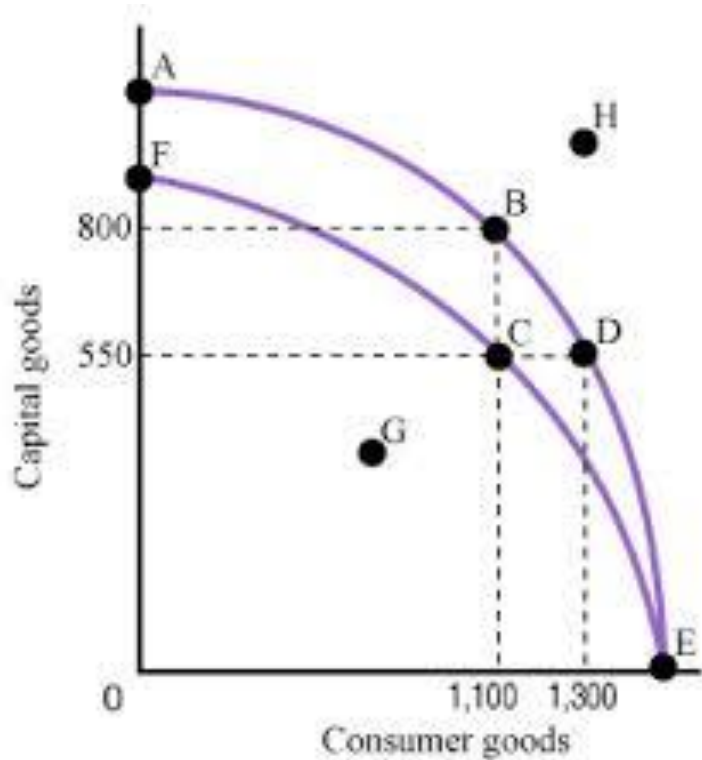
- ▶ Factories increase production
- ▶ Better technology
- ▶ More resources



Changes in the PPF

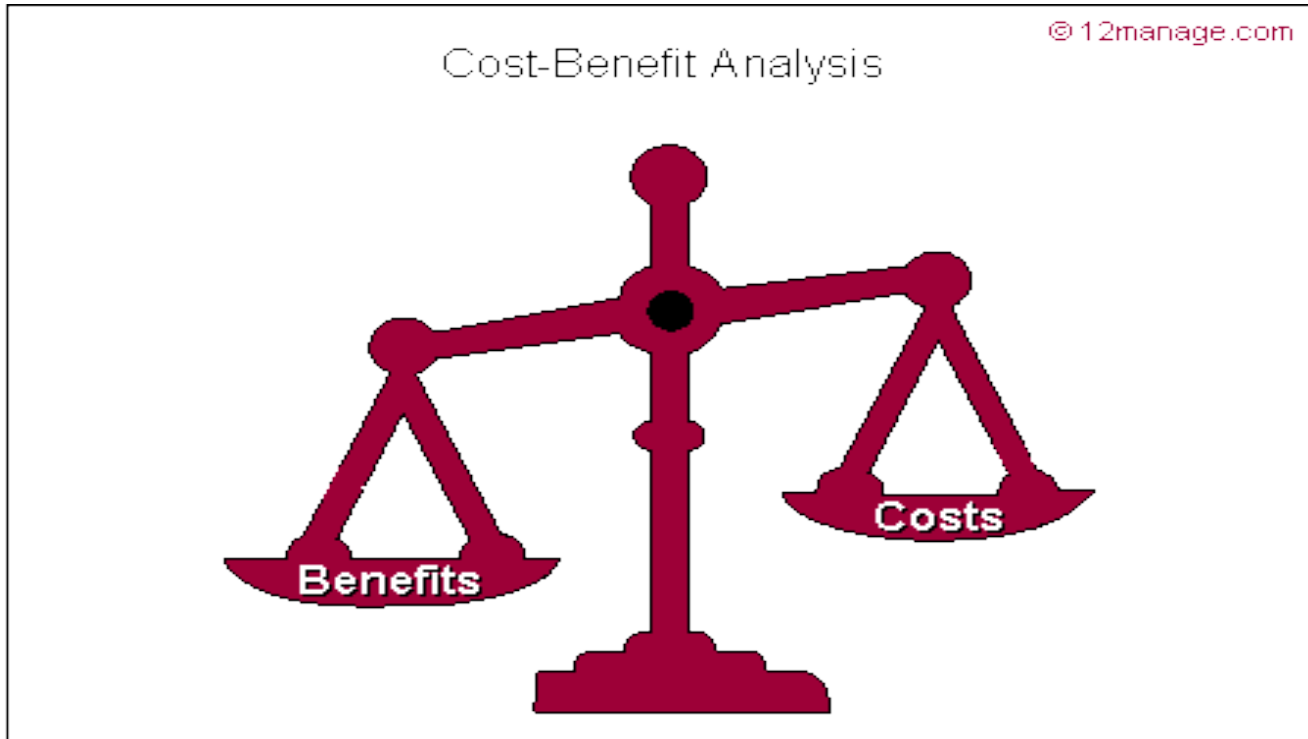
Productivity goes down

Productivity goes up



Cost Benefit Analysis

A way of comparing the cost and the benefits of an action to the benefits received.



Paradox of value

Contradiction when a high value nonessential item, and that of a low value essential item.



Needs

Basic requirement for survival, such as food, clothing and shelter.



Wants

Things we like but are not necessary for survival.



Wrap Up

- ▶ What are some things that can make a **PPF** shift?
- ▶ Give me examples of **opportunity cost** and **trade offs** ?

