

# 4

## Production possibility curve

- Which does **not** shift the production possibility curve outwards?
 

<b>A</b> higher prices	<b>C</b> improved education and healthcare
<b>B</b> higher productivity levels	<b>D</b> technological advances
- What do most economies strive to increase?
 

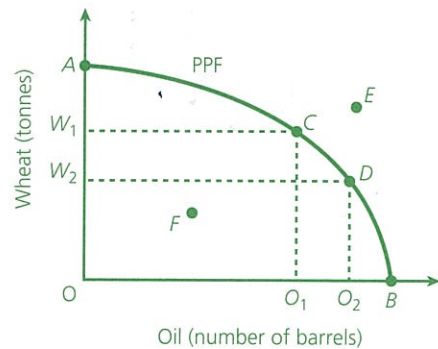
<b>A</b> consumer goods	<b>C</b> productive capacity
<b>B</b> opportunity cost	<b>D</b> unemployment
- Which is most likely to cause an outwards shift of an economy's production possibility curve?
 

<b>A</b> a fall in the quality of factors of production	<b>C</b> an increase in the quantity of factors of production
<b>B</b> a fall in the quantity of factors of production	<b>D</b> higher levels of unemployment

Study the production possibility frontier diagram for Country X, which produces only two goods, wheat and oil. Use this diagram to answer Questions 4 to 6.

- If Country X wishes to increase the production of wheat from  $W_2$  to  $W_1$  the opportunity cost in terms of oil is
 

<b>A</b> a decrease in oil production from $O_2$ to $O_1$
<b>B</b> an increase in oil production from $O_1$ to $O_2$
<b>C</b> an outward shift of the PPF curve to point $E$
<b>D</b> $C$ to $D$



- At which point is there spare capacity in the economy?
 

<b>A</b> C	<b>B</b> D	<b>C</b> E	<b>D</b> F
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- Describe **two** ways in which Country X could increase the productive capacity of the economy and cause its PPF curve to shift outwards to point  $E$ . [4 marks]

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**4 PRODUCTION POSSIBILITY CURVE**

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**7** Define the term *productive capacity*. [2 marks]

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**8 a** Describe what a production possibility curve (PPC) diagram shows. [2 marks]

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**b** Explain how the concept of opportunity cost is shown on a PPC diagram. [4 marks]

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**9** Explain the **two** conditions that must hold for an economy to be operating on its PPC. [4 marks]

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**10** With the use of an appropriate diagram, discuss the consequences of an outwards shift of the production possibility curve for an economy. [8 marks]

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