

# Economic Problem

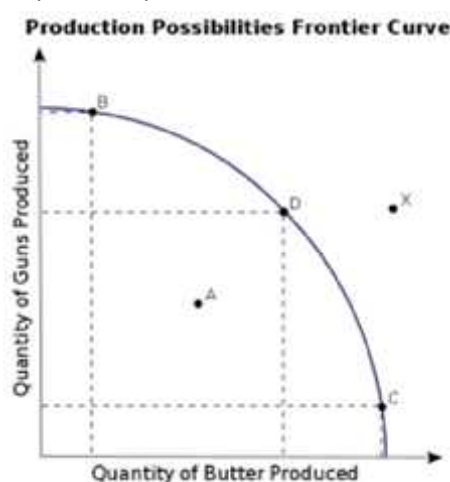
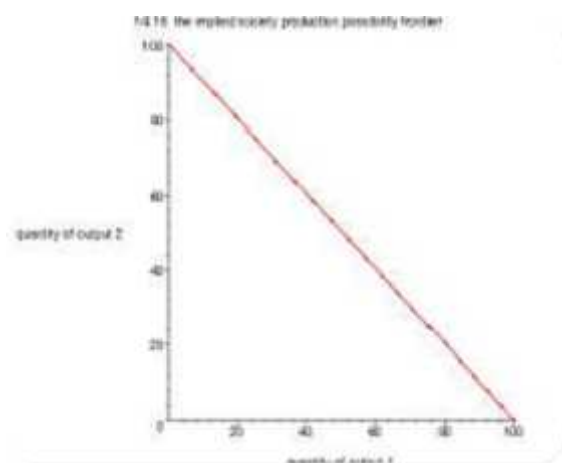
## Scarcity

- Unlimited Wants
- Limited Resources
- Alternative Use

Thus decision has to be made of what should be produced, how should be produced and for whom should it be produced.

## Opportunity Cost

- ✓ Due to scarcity choice has to be made and when a choice is made some goods are foregone for the other, the next best alternative forgone is the opportunity cost.
- ✓ This can be represented on a diagram of production possibility curve



- ✓ In considerations we take the curve as first one, as in examples of comparative advantage however the production possibility curve can never be linear.
- ✓ It will always be as shown in the second diagram, a curve like shape
- ✓ This is because all resources that are removed from A cannot be used to produce B, for example workers in a diamond factory cannot be removed and utilized with same productivity and skill in cheese factory, there would be the extra costs of retraining.
- ✓ Machines required to make diamonds also cannot be replaced by machines of cheese
- ✓ Therefore there is never 100% efficiency in transfer of resources from 2 goods thus curve cannot be linear
- ✓ This extent is also known as the mobility of the factors of production, the more immobile the less the efficiency in the transfer of resources
- ✓ Example at beginning the more able resources for B good or less able for A good is transferred so opportunity cost is low, however nearing the end the more able resource for A are transferred to B thus opportunity cost is high

- ✓ Shifts in production possibility growth outwards means economic growth and inwards mean recession
- ✓ Partial outwards shifts in PPC means that the efficiency in producing that good has increased and the opportunity cost has decreased however it still means there is some economic growth in the economy
- ✓ The curve is bowed outwards due to diminishing returns and increasing opportunity costs

