

PPC and Opportunity Cost - R & U – Info

Q.1. Define production possibility curve.

Ans. Production possibility curve (or transformation curve) is a curve showing different possibilities of producing a set of two goods when

- (i) the given resources are fully and efficiently utilised, and
- (ii) technology remains constant.

Q.2. Write the assumptions of production possibility curve.

Ans. The basic assumptions of production possibility curve are as under:.

- (i) Resources are given. These are fully and efficiently utilised.
- (ii) No change in technique of production.

Q.3. What does concavity implies in the context of production possibility curve?

Ans. Concavity of production possibility curve means that the marginal opportunity cost or marginal rate of transformation tends to rise as resources are shifted from Use-1 to Use-2.

Q.4. Which factors lead to a shift of the PPC?

Ans. PPC shifts when:

- (i) resources increase or decrease, and/or
- (ii) technology changes.

Q.5. When will production possibility curve shift to the right?

Ans. Production possibility curve shifts to the right when: .

- (i) resources increase, and/or
- (ii) more efficient technology is used.

Q.6. When is PPC a straight line?

Ans. PPC is a straight line when marginal opportunity cost or MRT (marginal rate of transformation) is constant.

Q.7. What is opportunity cost?

Ans. Opportunity cost refers to value of a factor in the next best (or second best) alternative use.

Q.8. Define marginal opportunity cost.

Ans. Marginal opportunity cost refers to loss of output of Good-Y for producing an additional unit of Good-X, when resources and technology are constant.

Q.9. Give two examples of underutilisation of resources.

Ans. Example 1: [Related to less developed countries]: Labour is underutilised as indicated by mass unemployment in countries like India.

Example 2: [Related to developed countries]: Capital is underutilised during depression when production is decreased owing to the lack of demand.

Q.10. Give two examples of growth of resources.

Ans. Example 1: Supply of skilled labour (like IT engineers) has increased in India causing a rightward shift in the PPC of IT industry.

Example 2: Discovery of oil reserves in the Gulf countries has caused a substantial rightward shift in the PPC of these countries.