

## Production Possibilities and Opportunity Cost

Fill in the blanks to summarize lecture content.

(1) \_\_\_\_\_ (Economy, Production) is the process of using economic resources or inputs in order to produce output. Economic resources consist of labor, (2) \_\_\_\_\_ (capital, money), natural resources, and entrepreneurship. The quantity and productivity of economic resources and the extent and efficiency with which they are employed determine the output potential of a nation during a given period of time. Constraints in the availability or use resources represent the (3) \_\_\_\_\_ (opportunity costs, scarcity) confronting nations. (4). \_\_\_\_\_ (Technology, A larger labor force) allows us to delay the sacrifices implied by scarce resources by increasing the productivity of resources. Improvements in resource productivity mean that a nation can produce more output with a given endowment of resources.

A (5) \_\_\_\_\_ (marginal benefit, production possibilities) curve is a convenient tool for showing the implications of scarce resources. Assuming (a) a given quantity and productivity of resources, as well as a given state art with respect to technology and (b) full and efficient employment of resources, it can be shown that a nation can produce more of one class of goods only by (6) \_\_\_\_\_ (sacrificing, increasing) the production of other goods. That sacrifice is a nation's (7) \_\_\_\_\_ (dollar outlay, opportunity cost) of producing more of a given good. As a nation produces more of a good, the opportunity cost (8) \_\_\_\_\_ (rises, falls) because resources that are increasingly (9) \_\_\_\_\_ (less, more) productive must be transferred from the production of other goods. This implies that a given increase in the production of one good will require ever (10) \_\_\_\_\_ (smaller, larger) reductions in output of other goods. The law of increasing costs exists because se resources (11) \_\_\_\_\_ (are, are not) equally adaptable to all employments.

A point on the production possibilities curve represents a combination of the classes of goods in question where output is at a maximum. A point inside curve implies either (12) \_\_\_\_\_ (unemployed, fully employed) resources or (13) \_\_\_\_\_ (efficiently, inefficiently) employed resources. A point outside the curve represents a combination of goods that is (14) \_\_\_\_\_ (attainable, unattainable) in the short run. But with an increase over time in the quantity and productivity of resources, together with improvements in technology, a point outside the curve is attainable in the long run.

Maximum production is attainable in the short run when resources are employed fully and efficiently. Productive efficiency means that a nation (15) \_\_\_\_\_ (can, cannot) reallocate resources among the production of goods and services and achieve a gain in the output of one good only by causing a reduktion in the output of another. Specialization and the division of labor are critical for the attainment

of maximum productive efficiency.

The process of economic growth can be shown as (16) \_\_\_\_\_ (inward, outward) shift over time in the production possibilities curve. A nation can generally produce more of all goods over time as long as it experiences resource growth an improvement in the quality of resources and technology. A nation's is growth is influenced by its willingness to forgo some (17) \_\_\_\_\_ (future, current) production of consumable output so that resources can be used for the production of (18) \_\_\_\_\_ (consumable outputs, capital). Production of capital today increases the production possibilities in the future not only by increasing the quantity of capital but also by increasing the productivity of other resources.