

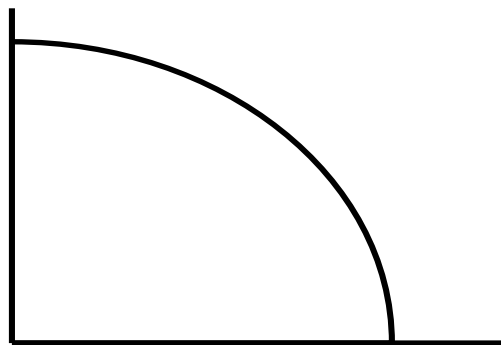
PRINCIPLES OF MACROECONOMICS

Economics 105 / Section 4 / Binder

CLASS EXERCISE #1:

PRODUCTION POSSIBILITIES FRONTIER (PPF)

1. Indicate whether each indicated point is possible or not and efficient or inefficient.



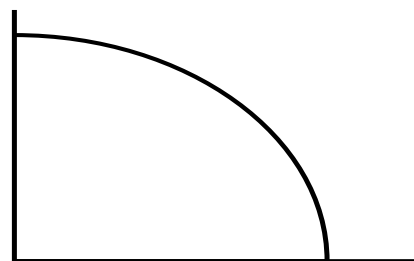
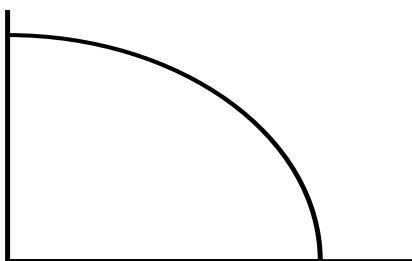
	Possible?	Efficient?
A	_____	_____
B	_____	_____
C	_____	_____
D	_____	_____
E	_____	_____
F	_____	_____

Explain what makes the efficient point(s) efficient.

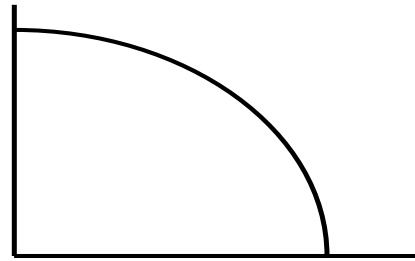
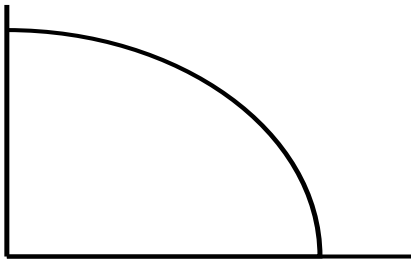
Explain what makes the inefficient point(s) inefficient.

Explain what makes the impossible points(s) impossible.

2. The following graphs show the PPF for an economy at a given point in time. Show how the PPF would change if . . .



3. The following graphs show the PPF for an economy at a given point in time. Show how the PPF would change if . . .



4. According to the PPF model, the amount of resources and the efficiency with which they are used lead to greater overall production. Does this make sense to you? What policies would therefore promote increasing production? Why might it be desirable to increase production? Why might it NOT be desirable to increase production? (To answer this last question, consider another PPF that looks at the output of cars on one axis, and pollution on the other.)