PPC and Opportunity Cost - R & U – Reason

Q.1. Production possibility curve may sometimes be convex to the origin.

Ans. False. PPC is always concave to the origin, as marginal opportunity cost (indicating slope of the curve) must rise as more and more resources are shifted from Good-2 (on Y-axis) to Good-1 (on X-axis).

Q.2. A shift from actual level of output to the potential level of output is not indicated by shift in PPC to the right.

Ans. True. PPC would shift to the right only when the potential level of output rises.

Q.3. Technological advancement or growth of resources shift the PPC to the left.

Ans. False. Technological advancement shifts PPC to the right, because better technology means more can be produced with the given resources. Growth of resources also shifts PPC to the right because, given the state of technology, more resources means more production.

Q.4. When due to a severe cyclone in a country, lot of people die and many factories are washed away PPC will shift to the left.

Ans. True. Because death of people implies loss of manpower and destruction of factories implies loss of capital. Thus, the country's stock of resources reduces which should cause a backward/leftward shift in PPC.

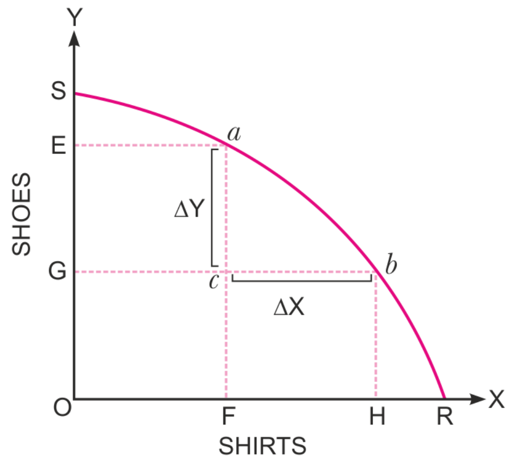
Q.5. An economy always produces on, but not inside a PPC.

Ans. False. Producing on PPC implies fuller utilisation of resources as well as efficient utilisation of resources. This is the optimum point which we always strive to achieve. But in practice, all the resources are not fully employed or efficiently utilised all the time. Hence, inside PPC is a realistic situation while on the PPC is an ideal situation.

Q.6. PPC is affected when resources are inefficiently employed in an economy.

Ans. False. PPC is not affected (or will not shift to the right or left) when resources are inefficiently employed in an economy. Because, PPC is drawn on the assumption that the given resources are fully as well as efficiently utilised, along with the given technology. If resources are inefficiently employed in an economy, it implies that the economy is not maximising its output with the given resources. It is a situation when the concerned economy is NOT operating on the production possibility curve, but is somewhere within the production possibility curve. So that, it is possible to increase the level of output of Good-X, or Good-Y, or both X and Y.

FIGURE 1



Production Possibility Curve: SR
Opportunity cost of producing FH shirts = EG shoes
Or
Opportunity cost of producing cb shirts = ac shoes

Marginal Opportunity Cost = $\frac{\Delta Y}{\Delta X} = \frac{ac}{cb}$ = Cost of producing an additional unit of shirts in terms of the loss of output of shoes.

Q.7. Massive unemployment shifts the PPC to the left.

Ans. False. PPC is drawn on the assumption that the given resources are fully as well as efficiently utilised. Unemployment is a situation when resources are not fully utilised. Or, it is a situation of under utilisation of resources. It would mean that the economy is not operating on the PPC but somewhere inside the PPC. PPC showing only technical possibilities of production, would not shift. Fig. 3 illustrates the situation.

FIGURE 3