

Model 1: productive possibility curve

Assumption:

1. Only 2 possible activities
2. Only 2 individuals
3. When trading, there are:
 - No transaction costs (negotiation/ transportation costs)
 - No other barriers (import quotes, tariffs)

One Agent Economy:

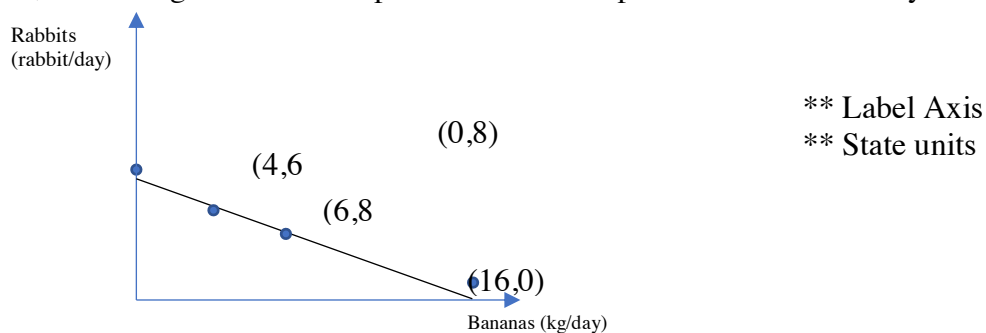
1	2 productive activities	Collecting bananas and catching rabbits
2	Performing an activity involves use of resources	Collect 1kg/h bananas Collecting 0.5 rabbit / hour
3	the amount of resources used to perform	
4	Resources are scarce	
5	Time constraint	24h – 8 h sleep = 16 h

Creating the curve:

1	Extreme scenarios	All collecting bananas: 16 kg per day All catching rabbits: 8 rabbits per day
2	Intermedium scenarios	4 kg banana with 6 rabbits 8 kg banana with 4 rabbits
3	Create productive possibility curve	

Definition:

Productive possibility Curve represents all Maximum output possibilities for 2 or more goods, given a set of inputs/resources if inputs are used efficiently.



Efficient Production Point: Combination of goods for which currently available resources do not allow an increase in the production of one good without a reduction in the production. (all the points on the PPC)

Attainable production point represents any combination of goods that can be produced with the currently available resources. (on the PPC or below and to the left of the PPC)

Unattainable points (above and to the right of the PPC) which cannot be produced using current resources.

