

increase the production of cars keeping the food grain output constant or it can increase the output of both the goods simultaneously.

Shift of production possibility curve

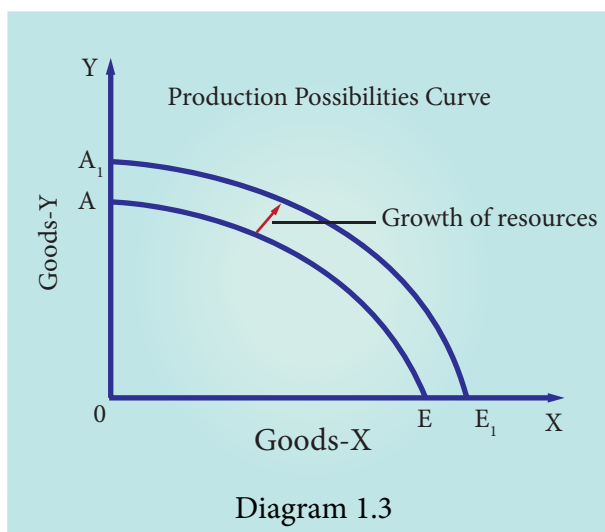
The PPC shifts upward or downward due to:

1. The change in the supply of productive resources and
2. The change in the state of technology.

The production capacity of an economy grows overtime through increase in resource supplies and improvement of technology. This enables PPC to shift upward from AE to A₁E₁ as shown in figure below. This outward shift of the PPC is the basic feature of economic growth.

Uses of production possibility curve

Through the device of PPC can be used for many analytical purposes. We shall discuss below some of its popular uses.



(i) The problem of choice

The problem of choice arise because of the given limited resources and unlimited wants, may relate to the allocation of

resources between the goods for the higher income group and the lower income group and the goods for the defense and the civilians. Since PPC is the locus of the combination of the goods the problem of choice will not arises when we choose any point on PPC.

(ii) The Notion of Scarcity

We can explain the notion of scarcity with the help of PPC. We know that every society possesses only a specific amount of resources, which can produce only limited amount of output even with the help of best technology, Economic scarcity of best fact of life. The production possibility curve reflects the constraints imposed by the element of economic scarcity.

(iii) Solution of central problems

The central problems of an economy can be explained with the help of PPC. The solution of problem of what to produce involves the decision regarding the choice of location on the production possibility curves. A production combination represented by any point inside the PPC indicates that the economy is using inefficient methods of production and inefficient combination of resources.

1.11 Conclusion

This chapter has given a broad overview of economics. Moreover the present certain common characteristics of economics definitions of Wealth, Welfare, Scarcity & Growth free essential questions an economy must solve; what to produce, how to produce and for whom to produce and also looked at division of economics, distinguishing between Micro and Macroeconomics. It has introduced