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## Introduction to Economics

### 1.7 PRODUCTION POSSIBILITY CURVE AND ECONOMIC PROBLEMS

Basically, production possibility curve can be effectively used to explain the economic problems of 'what to produce'. Central problems solved by this curve are:

1. Allocation of Resources—What to Produce and How Much to Produce
2. Full Utilisation of Resources
3. Economic Efficiency
4. Economic Growth

#### 1.7.1 Allocation of Resources—What to Produce and How Much to Produce?

##### What to Produce ?

All points on the production possibility curve,  $PP'$  shows what to produce and how much to produce. All points on the curve are efficient and attainable. *For example*, if the economy chooses point  $B$  as the production combination (Fig. 1.4), then 2 units of good  $X$  and 18 units of good  $Y$  can be produced. On the other hand, if the economy is operating at point  $C$ , then 3 units of good  $X$  and 15 units of good  $Y$  are produced. Thus, depending upon the nation's policy it can *choose any point on the curve*, which will solve the problem of what to produce and how much to produce.

Table 1.5 Economic Problems Solved by a PPC

S. No.	Economic Problems	Which points on PPC solve the problem?
1.	Allocation of resources: — what to produce and how much to produce. — how to produce.	All points on the PPC.
2.	Full utilisation of resources.	All points on the PPC.
3.	Economic efficiency.	All points on PPC.
4.	Economic growth.	All points on a higher PPC.

### **How to Produce ?**

It relates to technique to be used in production. The problem is to choose that technique of production which will maximise production or minimise cost. Only efficient technology should be chosen. All points on the production possibility curve imply that the most efficient technology is employed.

### **For Whom to Produce ?**

**Production possibility curve fails to explain how distribution of national product takes place.** Each point on the curve shows the amount of the two goods produced by an economy. It has to be analysed which section of the society is demanding which good. If the rich sections of the society are getting more goods then it shows unequal distribution of income and wealth in an economy. If poor people are getting more goods then it implies more equitable distribution of income.

### **1.7.2 Full Utilisation of Resources**

This problem is solved by all points on the production possibility curve. Each point on the curve  $PP'$  shows full utilisation of resources. Any point inside the curve like point  $F$  shows that resources are unemployed or underutilised or are lying idle. In other words, resources are not being used efficiently. By increasing the use of resources, production can be increased. *Example*, in India, most of machines and plants are underutilised. Another example is: underutilisation of people who are willing to work. Massive unemployment prevailing in India will lead to a point inside  $PPC$ . This will be true because  $PPC$  is drawn on the assumption that resources are fully employed. When there is massive unemployment it will reduce production possibilities and lead to a point inside  $PPC$  showing under utilisation of resources.

### **1.7.3 Economic Efficiency**

All points on the production possibility curve  $PP'$  are economically efficient in production. The aim of an economy, which wants to be economically efficient, is to be on the production possibility curve. Any point beyond the boundary of the curve is unattainable.

### **1.7.4 Economic Growth**

With discovery of new stock of resources or an advancement in technology, the productive capacity of an economy increases. The economy can produce more good  $X$  or more good  $Y$  or more of both goods.

A summary of economic problems solved by a production possibility curve is given in Table 1.5. ***PPC* illustrates three concepts, namely scarcity, choice and opportunity cost.**