Economic Growth

Shifting of the PPF

How can we get to point Z from a production standpoint?

- Recall, economic growth - this can be shown by an outward shift of the PPF

2 key factors of economic growth -
1) Technical Progress
2) Capital accumulation

**Capital goods vs. consumption goods trade-off

- What would a shift inward of the PPF represent??
- What might cause this??
Multiple Plant Production

- Suppose the firm producing cars/SUVs has another plant (plant B). It employs the same amount of resources as does the first plant (plant A) and follows this production schedule:

<table>
<thead>
<tr>
<th>CARS</th>
<th>SUVs</th>
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<tbody>
<tr>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>25</td>
<td>75</td>
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<tr>
<td>50</td>
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<td>100</td>
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</table>

Which plant has the lowest cost of producing (additional) SUVs? Of producing (additional) cars?

From plant A:
- Opportunity cost of bus: 2 cars
- Opportunity cost of car: 2 bus

In plant B:
- Opportunity cost of bus: 1 car
- Opportunity cost of car: 1 bus

Thus, lowest cost of bus -------- PLANT B
Lowest cost of car -------- PLANT A

If I want to produce 125 SUVs, which plant should produce how much??? What if I want to produce 125 cars???

Comparative Advantage

- This difference in costs leads to the notion of comparative advantage

**Definition:**
A person has a comparative advantage in an activity if she can perform that activity for a lower cost than any other person.

This applies to nations, firms, economies, etc. and the activity is usually production.

Thus, in our case, Plant_____ has a comparative advantage in the production of cars and Plant ____ has a comparative advantage in the production of SUVs.
Comp Adv. And Specialization

• If production is efficient, then comparative advantage leads to specialization in production

Examples:
Adam Smith's pin factory
Assembly-line at auto plant
Nations: Hong Kong vs. United States

• Specialization leads to greater quantities produced
• Specialization can be seen in the PPF as well.