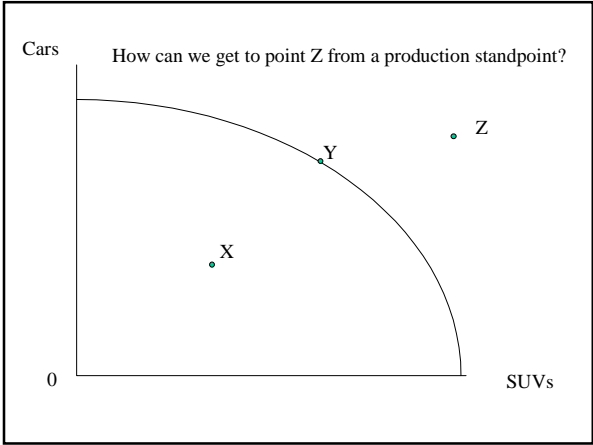


Economic Growth

Shifting of the PPF



Economic Growth

- 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:

CARS	SUVs
0	100
25	75
50	50
75	25
100	0

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.
