Plot these points on a PPC, and label each point. Connect pts. A-E.

- Guns (in millions)

- A: 200
- B:175
- C: 125
- D: 75
- E: 0

- Butter (in millions)

- A: 0
- B: 75
- C: 125
- D: 150
- E: 175

How does a PPC show opportunity cost?

- What is the opportunity cost of producing the first 75 guns?
- 25 butter

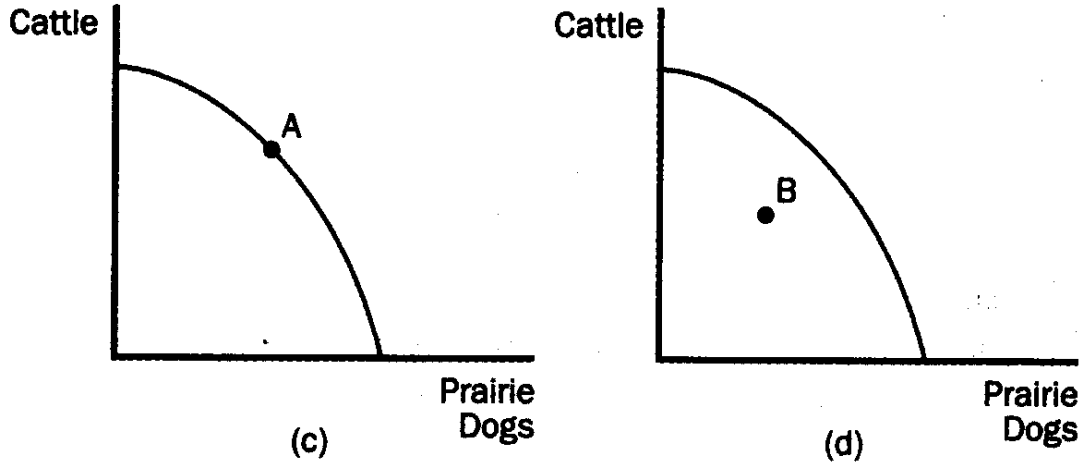
- What is the opportunity cost of moving from point B to point C?
- Loss of 50 guns

- If this country used all of its resources to create guns, how many could it produce?
- 200
- Is this efficient?
- Yes

- If this country only produced butter, how many could it make?
- 175
- Is this efficient?
- Yes

Can a PPC Shift?

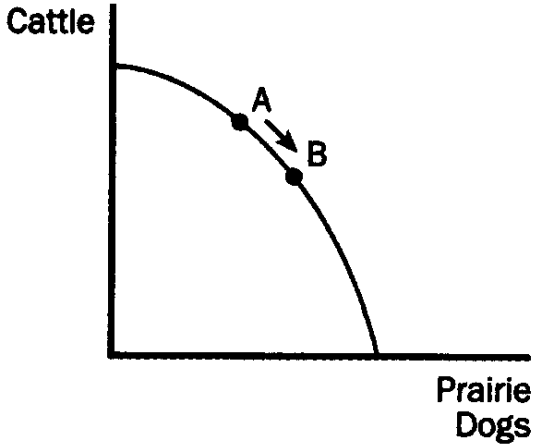
- Yes, if one of the assumptions are broken
  - Increase in workforce, or better educated
  - Better technology
  - Increase in land (think of early US)

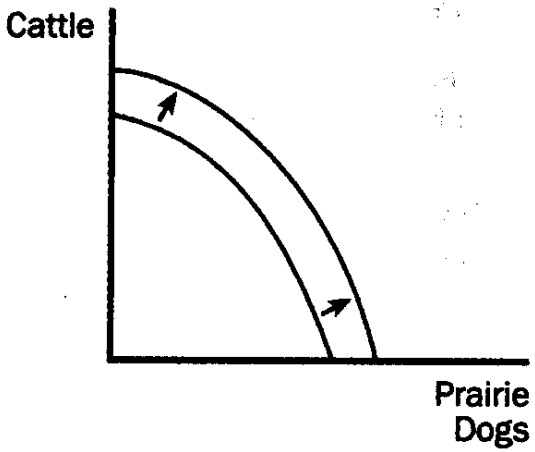

Cattle
A
Prairie Dogs

(c)

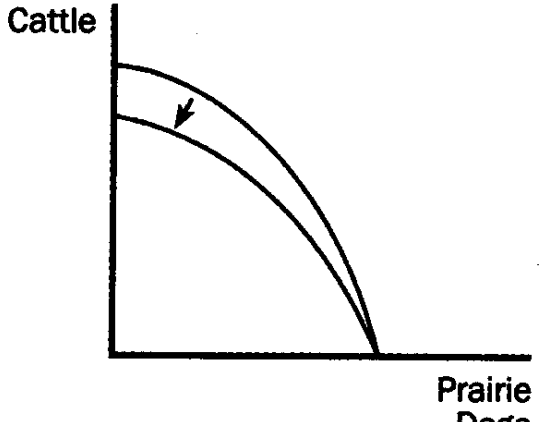
Cattle
B
Prairie Dogs

(d)


Cattle
A
B
Prairie Dogs


Cattle
Prairie Dogs

(e)


Cattle
Prairie

Shifting the PPC

- Suppose there were agricultural advancements that made cattle production more efficient.
- Suppose the population increases.
- Imagine the society deciding to focus more on prairie dog production.

Wrap Up

- A PPC is one economic model that economists use to show possible combinations of production. Simplified for sure, but is a PPC realistic?

Guns vs Butter

- *In the 1960's Lyndon Johnson called for a war on poverty by implementing and strengthening many social programs. (butter) But the growing war in Vietnam forced government funds to be redirected to guns, at the cost of funding the social programs.*
- *You can't have an unlimited amount of both!*

Guns vs Butter

- *After WWII, North Korea came under communist control. The North Korean government decided to strengthen its military, choosing guns over butter. By the late 1990's, millions of Koreans were dying of hunger because so many resources had been taken away from the production of necessities, such as food.*