

Production Possibilities Curve – Swagville and Crunknicity

Directions: Complete all work below or on a separate sheet of paper. Please write legibly. Work that can't be deciphered due to sloppiness will be marked incorrect.

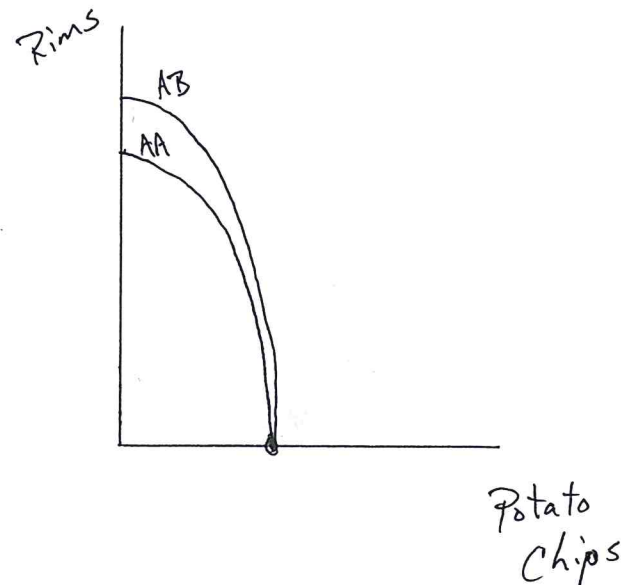
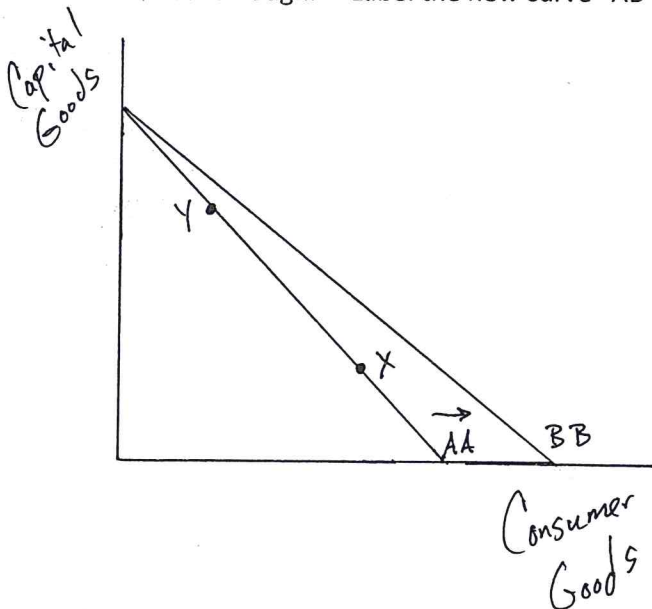
Part 1: Draw a constant cost production possibilities frontier for the country of Swagville. Swagville produces either Capital Goods or Consumer Goods. Label your original curve "AA". Create a production possibilities point or combination along the frontier that shows Swagville producing more Consumer Goods, than Capital Goods. Label it "X"

Part 2: On the same PPF, assume Swagville's Prime Minister of Swag, Mr. Benedict, creates economic legislation decreeing an increase in capital goods production, create a new point on the graph showing this effect, and label it "Y". What is the opportunity cost of this legislation?

we give up consumer goods
Part 3: On the same PPF show the change that would occur in production for Swagville on the PPF as a result of the above legislation for the following year. Label the shift/new curve "BB". Why did this occur?

capital goods can produce more consumer goods

Part 4: Create a totally new PPF. Crunknicity produces 22 inch rims and potato chips. Create an original increasing cost PPF labeled "AA". **Scenario:** A new innovation for creating and molding chrome is created in Crunknicity, show the change, if any, that would occur as a result of this technological breakthrough. Label the new curve "AB".



Part 1 + 2 → 3

Part 4