

The countrys of production possibility curve economics essay



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(B) Assuming that the country is currently producing 40 units of goods and 70 units of services, what is opportunity cost of producing another 10 units of goods?

$70 - 65 = 5$ units services opportunity cost

(C) Explain how the figures illustrate the principle of increasing opportunity cost.

Opportunity cost is the best alternative give up for the chosen option. This means without cost cannot make any decision. It also can describe as relation between choices and scarcity. The scarcity is come from factor of production is include labour, land capital and entrepreneur because it is limited resource. Therefore, we need make a choice to get a good product and giving up other product to fulfill.

In the figure 1. 1, company produces services and goods. In point A order to produce 80 units of services and the goods is 0 units, because the company must use all their resource in producing services.

The company produces 10 units of goods and 79 units of services. The increase of goods is 10 units therefore company need to give up 1 unit of services to produce goods because no enough resource to make it.

In point b, if the company wants to produce 40 unit of goods, the company could only produce 70 units of services due to the scarcity of resource.

In point C, the company has already utilized all the resources in produce 100 units of goods, therefore, the company will have no other resource to produce services in the market.

According to figure 1. 1, point A, B, and C are the most efficiency allocation of resource in production possibility curve. Point G and F are not efficiency allocation of resource. Point G is the impossible points to produce the output, because the company didn't have enough resource such as labour, land, capital and entrepreneur to produce output. Point F is a wastage of resource, because the company no plan well.

For example, Samsung Company produces LCD television and radio. When each additional produce LCD television, Samsung Company will give up produce radio and increase the sales of LCD television, because the resources are limited. When the Samsung Company used all resource to produce LCD television, Samsung Company fully give up produce radio. When increasing produce 10 units of LCD television, Samsung Company will decrease 10 units of radio for the additional producing 10 units of LCD television. So, the opportunity cost is 10 units of radio.

(D) Now assume that technical progress leads to a per cent increase in the output of goods for any given amount of resources. Draw the new production possibility curve. How has the opportunity cost of producing extra units of services altered?

Table goods and services:

Units of goods

0

11

22

33

44

55

66

77

88

99

110

Units of services

80

79

77

74

70

65

58

48

35

19

0

In the figure 1. 2, company increase 10 per cent in the output of goods. If the company utilized all the resources to produce goods, maximum units of goods can be produce increase to 110 units.

When the company increases producing units of services from 0 to 19 units, units of goods can be produce decrease from 110 to 99 units. That means, the opportunity cost is 11 ($110-99= 11$).

While the company increases producing units of services from 19 to 35 units, units of goods can be produce decrease from 99 to 88 units because the resource not enough to produce more than that amount of goods and the rest. That means, opportunity cost is 11 ($99-88= 11$).

From the figure 1. 2, the opportunity cost of producing extra units of services is constants at 11 units.

Example, Sony Company produces camera and android hand phone. In long term, market have potential to increase the unit android phone , therefore

each additional produce android, Sony Company will give up produce camera and increase to produce of android hand phone , because the factor of production are limited.

According to “ NEXUS PRO ECONOMI ASAS” by Theng Kock Leing, the opportunity cost can be defined which 2 alternative goods and services when each goods produce must give up some services.

2(A) What are the equilibrium price and quantity?

Equilibrium price: RM5

Equilibrium quantity: 12 millions

(B) Assume that changes in fashion cause the demand for t-shirts to rise by 4 million at each price. What will be the new equilibrium price and quantity? Has equilibrium quantity risen as much the rise in demand? Explain why or why not.

Demand is defined as a consumer desires to own and willingness to buy some goods and services at suitable price and time. Demand also can define as a consumer willing buy and pay for the goods and services. Willingness to get some goods and services without the ability to pay not defined as demand. For example, MR LEE want to buy Proton Saga but he don't have ability to pay the money therefore this is calling willingness not call demand. On the other hand, if MR LEE has the ability to pay the price of car then the willingness MR LEE will become demand.

Supply is defined as quantity of goods and services willingness and ability to supply or produce by firm at a suitable price and time set by the consumer. Price will affect quantity supply by consumer because different price will supply different quantity. Supply goods and services will affect by certain period of time. When the changed of certain period of time, supply of goods and services will be changed.

According to law of demand, while the price of goods and services increase will affect the quantity of demand decrease assume “ Ceteris Paribus”. On the other hand, the price of goods and services decrease will affect the quantity of demand increase therefore the relationship of price and quantity is negative.

According law of supply, while the price of goods and services increase will affect the quantity of supply decrease assume “ Ceteris Paribus”. On the other hand, the price of goods and services decrease will affect the quantity of supply increase therefore the relationship of price is positive.

When the demand for t-shirts rise by 4 million, the new equilibrium price is RM6 and the new equilibrium quantity are 14 units. The equilibrium quantity is rise to 14 units from 12 units as rise in demand.

When quantity of demand t-shirts rise 4 million, the quantity demand curve shift to right with the quantity supply fix. With the increasing in quantity demand, quantity demand is more that quantity supply at the equilibrium price at RM5. The firm will increase the price of t-shirts from RM5 to RM6 to decrease the excess demand. The new equilibrium will achieve at price RM6 and quantity 14 units of t-shirts. With the quantity supply fix and the <https://assignbuster.com/the-countrys-of-production-possibility-curve-economics-essay/>

changing of quantity demand will make the price and quantity change. As the conclusion, the initial equilibrium price RM5 will change to RM6 and the equilibrium quantity increase from 12 units to 14 units as the increase quantity demand.

(C) Now plot the data in the table and mark the equilibrium. Also plot the new data corresponding to (B)

Price(RM)

8

7

6

5

4

3

2

1

Quantity demanded

6

8

10

12

14

16

18

20

Quantity supplied

18

16

14

12

10

8

6

4

New quantity of demand

Price(RM)

8

7

6

5

4

3

2

1

Quantity demanded

10

12

14

16

18

20

22

24

Quantity supplied

18

16

14

12

10

8

6

4