

Economic efficiency essay sample

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In economics, the production possibility curve represents the maximum production capability of a firm or economy. The points on the curve represent combinations of manufactured goods that completely exhaust the productive capacity of the firm in question. It is the frontier of the firm's producing ability. If the firm were to produce at a point inside of the curve, then we can construe that as the firm being less than efficient. Producing inside of the curve means that the firm produces a combination of goods which is less in quantity than combinations of goods at the PPC. This is because the firm is not producing the maximum number of units it can produce. The possibility of adding more outputs is there but because of some reason or another, the firm is not producing at maximum capacity.

An example of a government agency which is inside its PPC would be a school in a rural community. The school may have capacities for hundreds of students but only have a few dozens of pupils in the student body. The school can accept and educate more students but cannot due to simple demographics. This is inefficient as resources used to keep the school running are wasted because it is not at capacity. Desks which are already paid for sit unused, electricity to light the entire large classrooms even if there are students only in the front row, these are some of the ways the school building may be wasting resources because it is within its PPC. Moving towards the PPC would not only mean that the school makes a bigger impact on the local education but would also mean less wasted tax dollars.

Since the Christmas season is approaching, an apt example for a private entity operating inside its PPC would be a toy company which is facing shortages of its product. In a past Christmas season, Sony's Playstation3

game console faced shortages after a supplier was unable to supply the needed lasers needed by the console. Due to the starvation of its manufacturing, Sony was unable to meet demand at a time when spending was at a seasonal high. This translated to lost revenues for that particular Holiday season. This is motivation for Sony to keep their supply chain streamlined so that they can operate at the PPC.

This generalized plot shows an imaginary PPC curve for Sony's game division. The PPC curve represents the possibility frontier for the production of Playstation 2 and Playstation 3 units. The dot shows Sony's actual production. We see that Sony could have produced additional Playstation 3 units without reducing its Playstation 2 productions. However, its supply chain problems prevented them from reaching this production capacity.

Bibliography

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