

# Production possibilities

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## Production Possibilities

Production possibilities frontier (PPF) or more commonly known as transformation curve is a graph that demonstrates the difference between two goods that an economy with scarce resources could produce. There are two primary determinants that may greatly affect the orientation of the PPF of a nation. These are production functions and factor endowments. There is relatively a very big possibility for the PPF of a nation to shift inward. Instances such as the occurrence of war and technological disturbances that may cause technological growth and development to cease are two of the possible causes of a PPF inward shift. The Principle of Diminishing Marginal Returns can also affect the shift of the PPF of a nation. Other factors such as currency devaluation or technological and political innovation can also shift a nation's PPF inward.

Figure 1 shows the inward shift of the PPF curve of a nation that has undergone war. Due to the war, the resources of the nation, which are primarily used to produce the food and medicine have been devastated. This devastation of the resources leads to decrease in the rate of technological innovations. Moreover, the war also gave rise to the currency devaluation of the nation. By these, it can be concluded that these instances can increase the possibility of the nation's PPF to shift inward.

Given a fixed proportion of resources added with another unit of resource needed by a nation for the production of two goods and the machines needed by the nation in the production, the curve of the production possibility frontier of a nation would shift inward to the left in time – this is due to the law of diminishing marginal returns. The law states that even <https://assignbuster.com/production-possibilities/>

though other units of resources are added to the nation's tool for production, the marginal output of the nation would decrement until it reaches negative. And when it reaches the negative value, the PPF curve of that nation would shift inward. Currency devaluation also affects the inward shift of a nation's PPF curve when some of the nation's resources are being purchased from other nations. The decrease in the value of the nation's currency would affect the amount and the value of the resources purchased. Decline in the rate of innovations could also aid in the inward shift of the PPF curve of the nation since technological innovations may help develop and improve the production process.

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