OUTLINE — August 27, 2018

- Normative Questions: What are the Goals?
- Production Possibilities Frontier
 - Law of Increasing Opportunity Costs
- Fconomic Growth

No laptops (unless pre-approved); Tablets ok Cell phones silenced & put away

Announcements sent by email by Prof. Olney Extra handouts: in racks outside 532 Evans

Criteria for Judging

- Efficiency
- Growth

Equity

- Stability
- What if goals conflict?
 - Your value system dictates which goals are more important than others

A Simple but Powerful Economic Model

- How does the economy allocate its scarce resources?
- Resources include
- Subject to constraints

Production Possibilities Frontier

- Every model:
 - Question Simplifications Assumptions
- Question:

What are the general characteristics of the possible combinations of output that can be produced

in an economy

within a given time period?

Production Possibilities Frontier

- Simplify: Only 2 types of output
- Assume: No deliberate waste
 - We use all resources as efficiently as possible

Normative vs. Positive Allocating Scarce Resources Production Possibilities Frontier

Demonstration: "No Deliberate Waste"

- On a scale of 0 (horrible) to 100 (fabulous),
 - Rank your ability to produce food
 - Rank your ability to produce machines
- Now, compute the ratio: $\frac{Food}{Machines}$
- Line up high-to-low according to ratio: $\frac{Food}{Machines}$
- Who produces food? Machines?

Iormative vs. Positive Allocating Scarce Resources Production Possibilities Frontier

Example: Food & Machines

Possible combinations of food (F) & machines (M)?

January	February
100 machines	110 machines
2,000 units food	units food

Opportunity cost of those 10 additional machines?

February	March
110 machines units food	120 machines units food

Opportunity cost of those 10 additional machines?

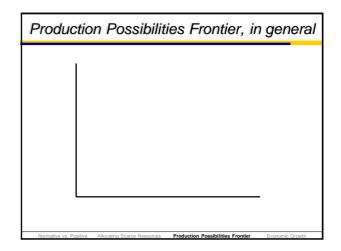
Normative vs. Positive Allocating Scarce Resources Production Possibilities Frontier Economic Gro

Opportunity Cost

- Opportunity Cost definition
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- Law of Increasing Opportunity Cost
 - The "law":
 - Explanation:

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Production Possibilities Frontier for this example		
	January: 100 M & 2,000 F February: 110 M & 1,900 F March: 120 M & 1,500 F	
Normative vs. Positive Allocating Scarce Resources	Production Possibilities Frontier Economic Growth	



■ Economic Growth shifts the PPF out ■ Growth: an increase in total *possible* output

- - (or sometimes, increase in total possible output per person)

Economic Growth

- Sources of growth
 - 1. increased quantity of resources
 - 2. increased productivity of resources

Examp	le: Increase labor forc	е
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Ex.: Increase productivity in food production				
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Normative vs. Positive Allocating Scarce Resources Production Possibilities Frontier	Economic Growth			

What can increase productivity? Institutions! Normative vs. Positive Allocating Scarce Resources Production Possibilities Frontier Economic Growth

Example: Hurricane Maria Normative vs. Positive Allocating Scarce Resources Production Possibilities Frontier Economic Growth

Consuming beyond PPF: aid

- When one economy or foreign organization provides resources to another economy
- Examples
 - Bridges to Prosperity
 - Cal's Alternative-Break trips to New Orleans
 - Marshall Plan after WWII
- Marshall Plan
 - US aid to Europe after WWII
 - World War II, massive bombing throughout Europe
 - Destroyed much of the transportation infrastructure
 - 1948-1952, rebuild infrastructure, modernize industry

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