

Examrace

Competitive Exams: Production Possibility Curve (PPC)

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This tool is very important and very basic tool. This tool is used to study the problem of scarcity. Before explaining ppc there are some assumption to be made

They are

1. There is full employment in the society
2. The supply is limited-which means that supply of factors are fixed and they can be reallocated within limits among different uses.
3. Technology is constant which means that there is no innovation going in the society.

IF we closely observe the data we find that we have two extremes here. The alternatives A and alternatives E. At 'A' There is no production of bread which means all the resources available in the economy is producing only sewing machine or the economy point E if fully devoted to the production of only sewing machine. Same is the case with where there is production of only bread. The 'D' 'B' and 'C' is the combination of two goods. The economy generally adopts the 'D' 'B' or 'C' alternatives. As we move from 'A' TO 'E' the economy changes the combination. When the society is moving from 'a' to 'e' the society is consuming one commodity at the expenses of the other good. In our example it is choosing bread at the coast of sewing machine. At any point of time, a fully employed and fully producing economy must sacrifice some part of one product to obtain other products. Since economic resources are scarce, the economy cannot have all the commodities at one time. If the point falls on ppc it means the factors of production are fully employed. If the production is taking place at point 'U' it means there's under employment and there are some unemployed factors in the society. Whereas if the production takes place at point 'P' It will have to increase the efficiency and production capacity of the factors production.

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