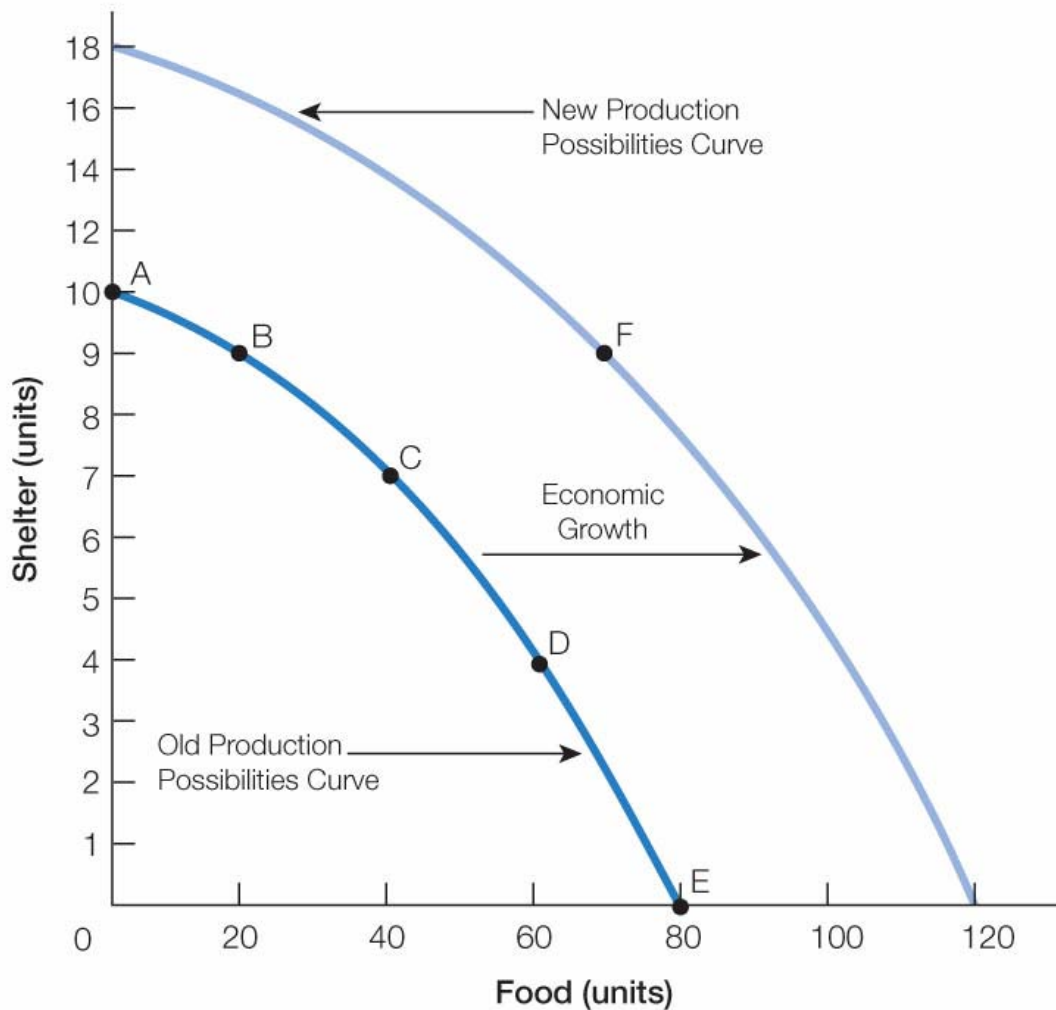


SECTION 2.4 ECONOMIC GROWTH AND THE PRODUCTION POSSIBILITIES CURVE

- Some nations have been able to rapidly expand their output of goods and services over time, while others have been unable to increase their standard of living at all.
- An economy can grow only with qualitative or quantitative changes in the factors of production—land, labor, capital and entrepreneurship. Advancements in technology, improvements in labor productivity or new natural resource finds could all lead to outward shifts of the production possibilities curve.
- Economic growth means an outward shift in the possible bundles of goods and services illustrated by the production possibilities curve. Advances in technology, improvements in labour technology or new sources of natural resources could all lead to outward shifts of the production possibilities curve.

section 2.4
Exhibit 1

Economic Growth and
Production Possibilities



Economic growth shifts the production possibilities curve outward, allowing increased output of both food and shelter (compare point F with point C).

Exhibit 1: Economic Growth and Production Possibilities

- It is important to remember that increases in a society's output do not make scarcity disappear. Even when output has grown more rapidly than population so that people are made better off, they still face trade-offs. At any point along the production possibilities curve, in order to get more of one thing, you must give up something else.

- Economies that choose to invest more of their resources for the future (devoting a larger share of their productive capacity to capital goods rather than consumption goods) will grow faster than those that don't, other things equal
- Economies that choose to invest more of their resources for the future will grow faster than those who don't. The society that devotes a larger share of its productive capacity to capital goods (machines, factories, tools and education), rather than consumption goods (video games, pizza, and vacations)' will experience greater growth.
- Investment in capital goods will shift out the production possibilities curve in the future, allowing for greater consumption.

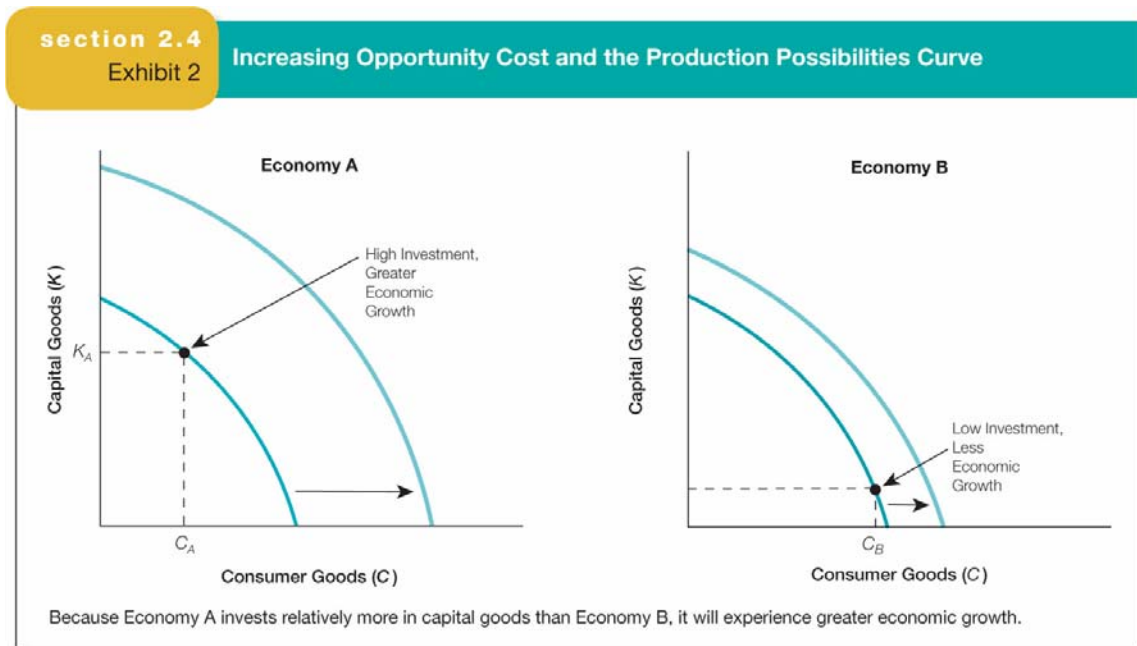
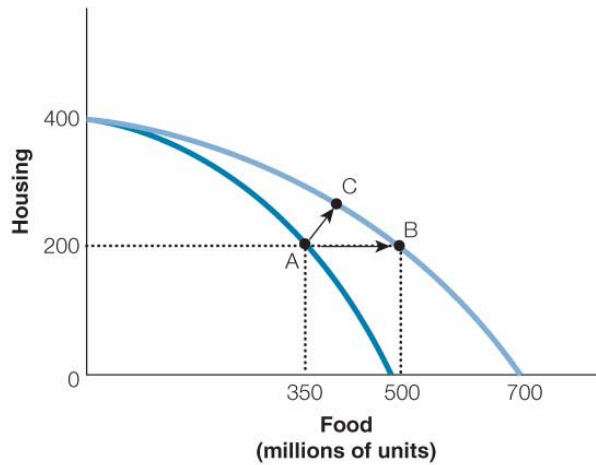


Exhibit 2: Increasing Opportunity Cost and the Production Possibilities Curve

- Technological advance does not have to impact all sectors of the economy equally. .

section 2.4
Exhibit 3

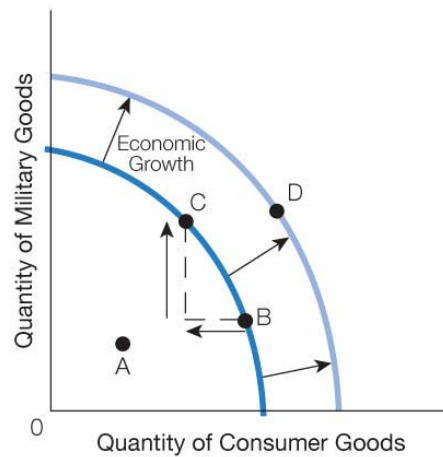
The Effects of Change on the Production Possibilities Curve



A move from point A to point C will lead to more housing and food. A move from point A to point B will lead to more food and the same level of housing.

section 2.4
Exhibit 4

Production Possibilities Curve



Point A, inside the initial production possibilities curve, represents inefficiency. Points B and C, on the curve, are efficient points and represent two possible output combinations. Point D can be attained only with economic growth, illustrated by the outward shift in the production possibilities curve.

Debate - Can Economic Growth be Sustained Over the Long Term?