PPC Practice

To help guide you

Opportunity Cost

- The most desirable alternative given up as the result of a decision

Marginal Cost

- The cost of producing one more unit of a good

Marginal Opportunity Cost

- Marginal opportunity cost is a expression used to describe the fusion of opportunity cost and marginal cost
- Marginal opportunity cost is the measurement of the opportunity cost for the production of extra units of goods.

Marginal Opportunity Cost

- This concept applies to the cost of business decisions in which one item must be sacrificed for something else. For example, a company may produce 10,000 units of pens in eight hours per day. If the managers of the company decide to increase the production of the pens to 12,000 units per day, the cost can be calculated by using the marginal opportunity cost concept. In this case, it will include considerations about the overtime that would be paid to the workers or extra hours that must be added to the work shifts in order to meet the increase. It will also include a calculation of the cost for the extra materials needed to produce the pens.

Total Cost

- The total cost of the second unit of clothing is the amount of food that is given up when clothes production increases from zero to two units

Law of increasing costs

- As we shift factors of production from making one good or service to another, the cost of producing the second item increases

Optimal points on the PPC

- Any point appearing on the PPC is considered optimal.
- Any point below the curve is considered inefficient
- Any point above the curve represents goals that are unattainable with the present resources

Circular Flow

- http://www.stlouisfed.org/education_resources/economic-lowdown-video-companion-series/episode-6-circular-flow/