

# GRADE 8

## ECONOMICS

### TOPIC: SHIFTS IN PPF

#### Production Possibilities Frontier

The **production possibilities frontier (PPF)** is an economic model used to illustrate how people and nations should decide what goods to produce, how much to produce, and for whom they should produce it.

#### Assumption:

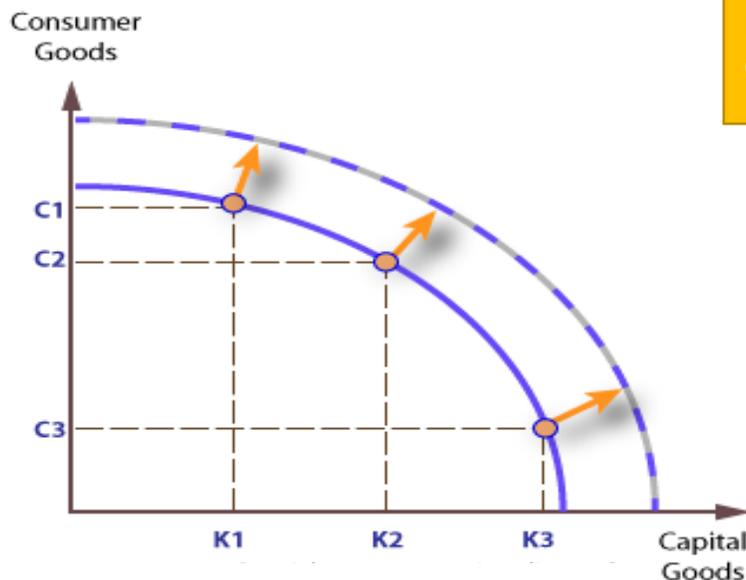
The economy is considered to be producing two goods only.

#### How can the Production-Possibilities Frontier be shifted?

Outward or inward shifts in the PPF can be caused mainly by changes in the total amount of available production factors or by advancements in technology. If the total amount of production factors like labor or capital increases, then the economy is able to produce more goods at any point along the frontier. Conversely, during times of high unemployment and limited money supply, the frontier will retreat inwards and the total amount of goods that can be produced will decrease.

If new technologies are developed that enable goods to be produced with fewer production factors, the economy's capital will essentially experience a rise. Thus, the economy will be able to produce more at any point along the frontier, meaning that the frontier has effectively shifted outwards. Inward shifts in the PPF that are linked to regressions in technology could theoretically occur, but as technology has proven to generally continually improve over time, such a scenario is fairly unlikely to materialize in real life.

PPF Outward Shift:



Note: Inward shift can be drawn in a similar way.

## **Factors Causing Shift in PPF:**

### **Inward shift:**

Factors that can lead to this include:

- Natural disasters such as earth quakes, floods, etc. can have devastating effects on a country. It reduces the production potential by decreasing the quantity of land, destroying infrastructure i.e. capital and decreasing population i.e. labor.
- Wars, terrorism, violent protests and other political disruptions can stall the economic activity and shift the PPF inwards.
- Outward immigration i.e. brain drain causes the skilled people to immigrate to other countries which reduces over production potential.
- Spending too much on current consumption or unproductive pursuits (for example, engaging in an arms race) decreases the creation of new capital which can cause PPF inwards shifts in future.

### **Outward Shift:**

Factors that result in outwards shifts include:

- New inventions i.e. improvement in technology: it increases productivity of other factors of production. This happens when societies forego current consumption to save and invest in capital goods such as roads, etc.
- Population growth and inward immigration: it leads to an increase in the stock of skilled labor.
- Investment in education and other training opportunities: it increases the human capital of a society.