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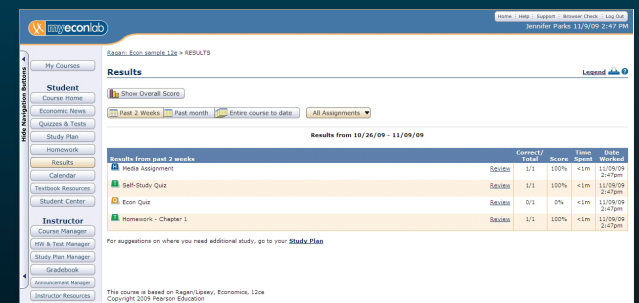
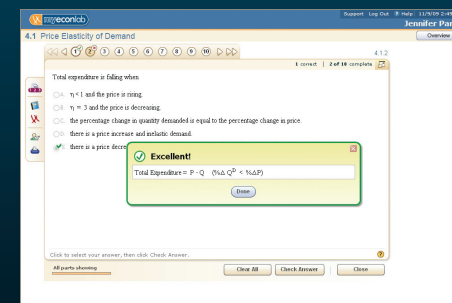
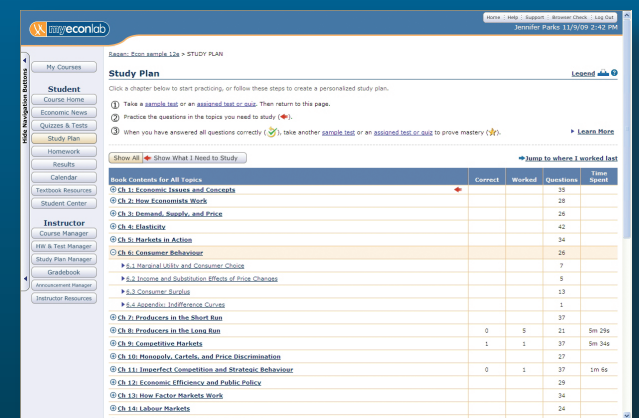
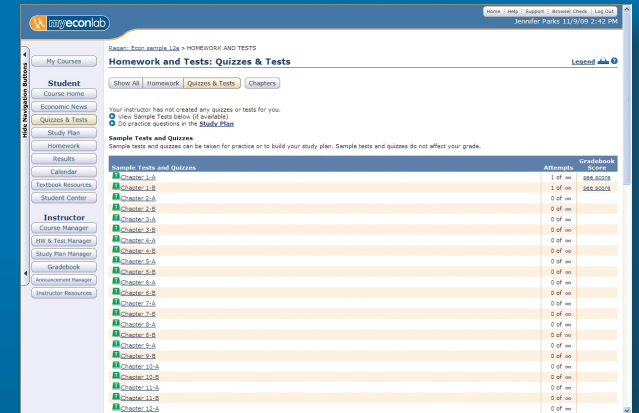
- MyEconLab comes with two pre-loaded sample tests for each chapter so you can self-assess your understanding of the material.

Personalized Study Plan

- A study plan is generated based on your results on sample tests and instructor assignments. You can clearly see which topics you have mastered and, more importantly, which topics you need to work on!

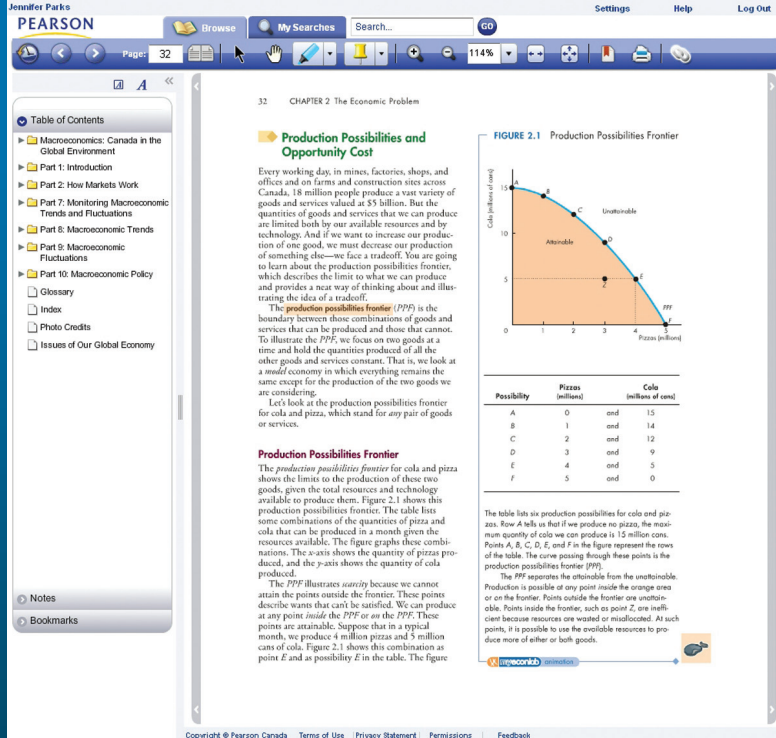
Practice Problems

- Use the study plan exercises to get practice where you need it. To check how you're doing, click "results" to get an overview of all your scores.



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Pearson eText



CHAPTER 2 The Economic Problem

Production Possibilities and Opportunity Cost

Every working day, in mines, factories, shops, and offices and on farms and construction sites across Canada, 18 million people produce a vast variety of goods and services valued at \$5 billion. But the quantities of goods and services that we can produce are limited both by our available resources and by technology. And if we want to increase our production of one good, we must decrease our production of something else—we face a tradeoff. You are going to learn about the production possibilities frontier, which describes the limits to what we can produce and provides a neat way of thinking about and illustrating the idea of a tradeoff.

The **production possibilities frontier (PPF)** is the boundary between those combinations of goods and services that can be produced and those that cannot. To illustrate the PPF, we focus on two goods at a time and hold the quantities produced of all the other goods and services constant. That is, we look at a *model* economy in which everything remains the same except for the production of the two goods we are considering.

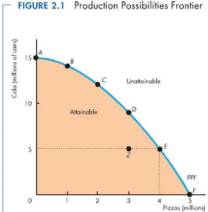
Let's look at the production possibilities frontier for cola and pizza, which stand for any pair of goods or services.

Production Possibilities Frontier

The **production possibilities frontier** for cola and pizza shows the limits to the production of these two goods, given the total resources and technology available to produce them. Figure 2.1 shows this production possibilities frontier. The table lists some combinations of the quantities of pizza and cola that can be produced in a month given the resources available. The figure graphs these combinations. The x-axis shows the quantity of pizzas produced, and the y-axis shows the quantity of cola produced.

The PPF illustrates **scarcity** because we cannot attain the points outside the frontier. These points describe wants that can't be satisfied. We can produce at any point *inside* the PPF or *on* the PPF. These points are attainable. Suppose that in a typical month, we produce 4 million pizzas and 5 million cans of cola. Figure 2.1 shows this combination as point E and as possibility E in the table. The figure

FIGURE 2.1 Production Possibilities Frontier



Possibility	Pizzas (millions)	Cola (millions of cans)
A	0	15
B	1	14
C	2	12
D	3	9
E	4	5
F	5	0

The table lists six production possibilities for cola and pizza. Row A tells us that if we produce no pizzas, the maximum quantity of cola we can produce is 15 million cans. Points A, B, C, D, E, and F in the figure represent the rows of the table. The curve passing through these points is the production possibilities frontier (PPF). The PPF separates the attainable from the unattainable. Production is possible of any point inside the orange area or on the frontier. Points outside the frontier are unattainable. Points inside the frontier, such as point Z, are inefficient because resources are wasted or misallocated. At such points, it is possible to use the available resources to produce more of either or both goods.

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Improve Your Grade

It's easy to prepare wisely with practice quizzes and tutorials. MyEconLab offers a wide variety of problems that let you practise the theories and models being learned.

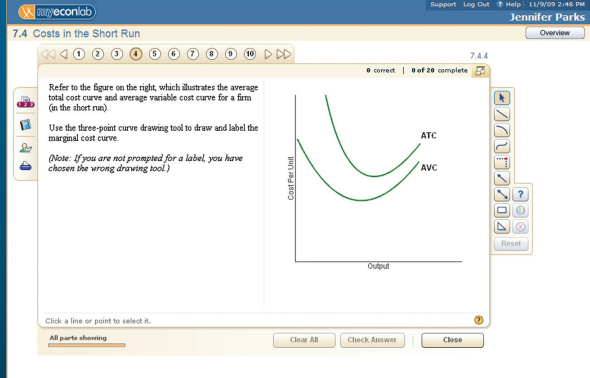
Graphing Tools and Questions

MyEconLab offers questions that allow you to draw graphs and plot data, as well as manipulate interactive model-based graphs.

Practice Problems

Many study plan and instructor-assigned problems contain algorithmically generated values to ensure you get the practice you need to prepare for tests and exams.

Go to www.myeconlab.com and follow the simple registration instructions on the Student Access Code Card provided with the text. Your unique access code is hidden there.

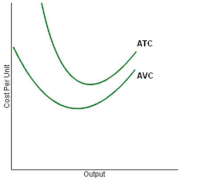


7.4 Costs in the Short Run

Refer to the figure on the right, which illustrates the average total cost curve and average variable cost curve for a firm (in the short run).

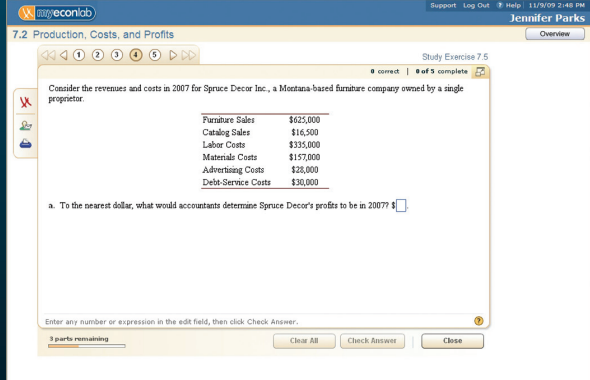
Use the three-point curve drawing tool to draw and label the marginal cost curve.

(Note: If you are not prompted for a label, you have chosen the wrong drawing tool.)



Click a line or point to select it.

All parts showing



7.2 Production, Costs, and Profits

Study Exercise 7.5

Consider the revenues and costs in 2007 for Spruce Decor Inc., a Montana-based furniture company owned by a single proprietor.

Furniture Sales	\$625,000
Catalog Sales	\$16,500
Labor Costs	\$335,000
Materials Costs	\$157,000
Advertising Costs	\$28,000
Debt-Service Costs	\$30,000

a. To the nearest dollar, what would accountants determine Spruce Decor's profits to be in 2007? \$

Enter any number or expression in the edit field, then click Check Answer.

3 parts remaining