

Macroeconomics 201 Discussion Session #1: Production Possibilities

Construct a Production Possibilities Curve based on the following Production Possibilities Schedule:

<u>Missiles</u>	<u>Milk (millions of gallons)</u>
0	40
10	34
20	27
30	19
40	10
50	0

1. What are the assumptions behind the construction of the curve?
2. Explain the shape of the curve.
3. Calculate the opportunity cost of producing the first 10 missiles.
4. Calculate the opportunity cost of producing the last 10 missiles.
5. What two central facts of economic life (in the neoclassical view) are displayed by the curve?

Graph the additional two points:

Missiles	Milk(millions of gallons)
30	15
35	25

