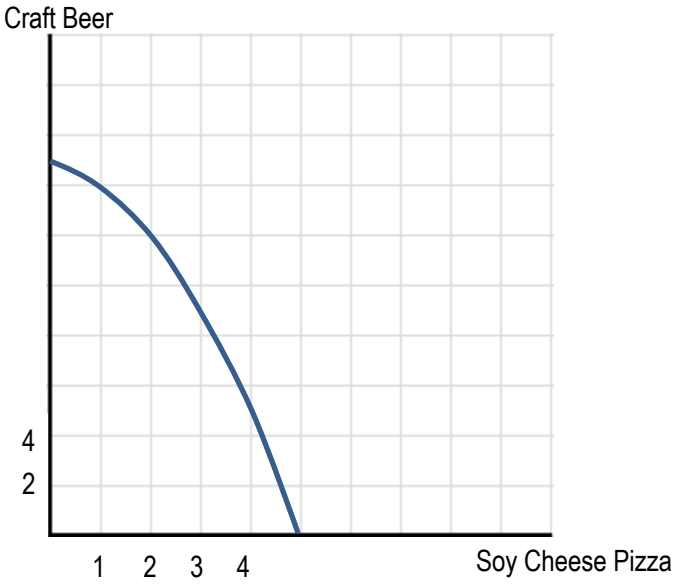
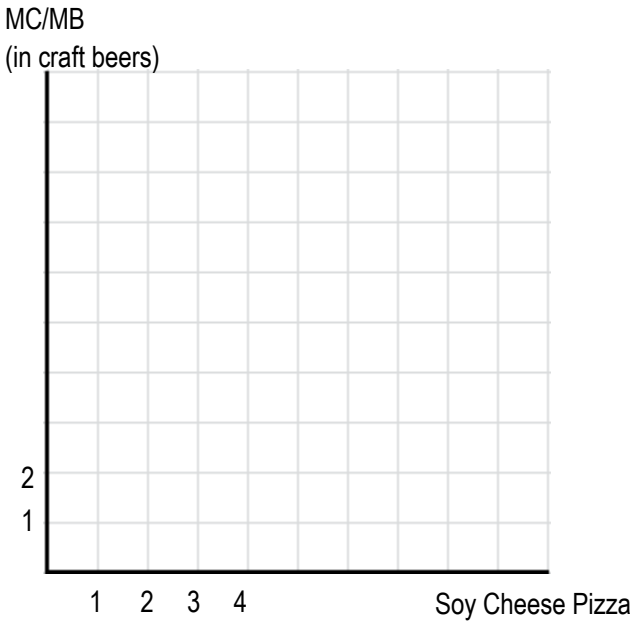
CONCEPT: PPF – INCREASING MARGINAL OPPORTUNITY COSTS AND ALLOCATIVE EFFICIENCY

- The PPF *bows outward*. Each increase in production of one good causes the other good's production to fall faster.



Increasing Marginal Opportunity Costs	
Number of Pizzas	**Marginal Cost (MC)**
0	
1	
2	
3	
4	

- ***Allocative Efficiency*** – the mix of production where _____



Important:

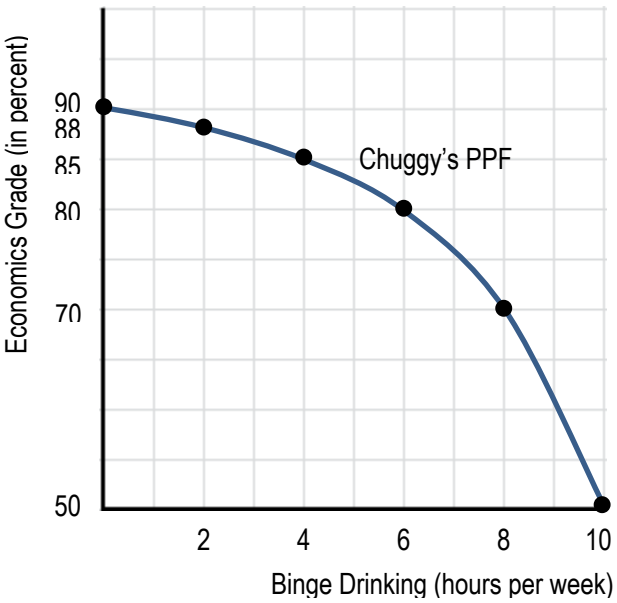
- The Marginal Benefit (MB) curve is _____ *to the PPF*. MB depends on consumer willingness to pay.
- We plot the MC curve from the _____ of each additional unit.

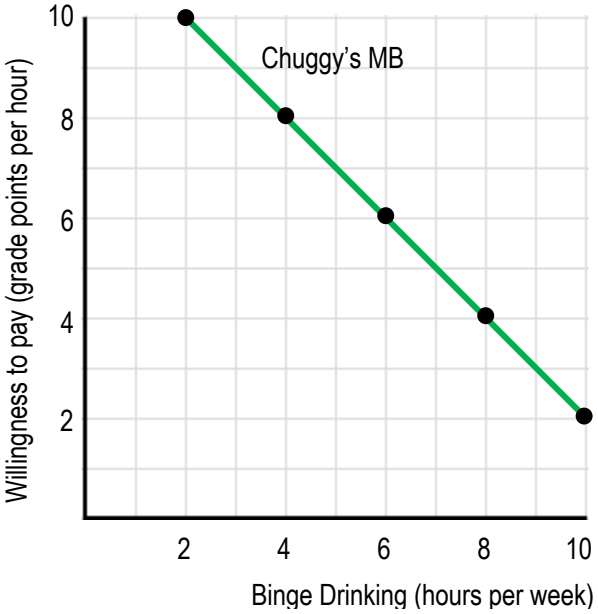
Number of Pizzas	Marginal Cost (MC)	Willingness to Pay (MB)
0.5		
1.5		
2.5		
3.5		
4.5		

Allocative Efficiency Quantity:

Soy Cheese Pizzas _____ Craft Beers _____

PRACTICE: Chuggy wants to earn a high grade in his microeconomics class, but also loves going to parties and binge drinking. The first graph illustrates Chuggy's PPF. The second graph denotes his MB curve from binge drinking.





1. What is Chuggy's marginal cost of binge drinking if he parties for three hours a week?
    a. 1 percentage point
    b. 1.5 percentage points
    c. 2 percentage points
    d. 3 percentage points
    e. 5 percentage points

2. If Chuggy achieves allocative efficiency, how many hours does he spend binge drinking per week?
    a. 3 hours
    b. 4 hours
    c. 5 hours
    d. 6 hours
    e. 7 hours

3. What is Chuggy's economics grade when he achieves allocative efficiency?
    a. 60 percent
    b. 70 percent
    c. 76 percent
    d. 82 percent
    e. 85 percent