Understanding How a Change in Technology or Resources Affects the PPF

**Key Concepts:**

- An outward shift in the production possibilities frontier (PPF) indicates an expansion in the economy caused by a change in technology or an increase in resources.

- An individual production shift in the PPF means that a change in technology or resources affects production of each product in different ways, creating a skewed shift.

- An inward shift in the PPF means that the production of both goods decreases because of a change in resources or technology.

Any movement along the PPF represents the economy's choice about the relative amounts of each product to produce. It represents the opportunity cost of producing each in terms of the other; that is, how much of one you have to give up to get more of the other. The PPF on the left illustrates the opportunity cost of wheat in terms of rice (or rice in terms of wheat).

**Types of Shifts**

- An outward shift represents an expansion of the production possibilities of the economy; an inward shift represents shrinkage in the production possibilities of the economy. Both of these are caused by a change in either the resources or the technology affecting production of both products. A skewed shift indicates that the change in technology or resources affects the production of each of the products in different ways, as in the far right box on the left.

The production possibilities frontier (PPF) does not say anything about the demand for either of the products. It only addresses the supply side of the economy. In order to determine demand for the products, you will have to study consumer choice theory in economics. In a market economy, the consumer makes all the demand choices.