**Yates**

[pic] UNITPRODUCTION POSSIBILITY FRONTIER. Understanding a printed text (1)

T he following text will introduce you to the topic of the production possibility frontier. Look at the way it is divided into paragraphs. Pay attention to the heading and notes in the margins, and to the table.look at these questions. 1. What types of good are used as an example? 2. What law is explained? 3. What does Table 1-3 show? 4. When additional workers are added, does output per worker rise or fail? 5. What term is used to describe what happens when society gives up units of food production to get more film output? Read the passage through and find the answers to the questions. Remember, you do not have to understand every word to answer them. A hypothetical economy

THE PRODUCTION POSSIBILITY FRONTIER

To see how this tool helps us to think about scarcity and the problem of what to produce, we consider a hypothetical economy in which there are two types of good, food and films. There are four workers in the economy. A worker can produce in either the food industry or the film industry. The law of diminishing returns 2. Table 1-3 shows how much of each good can be produced per week. The answer depends on how the workers are allocated between the two industries. In each industry, the more workers there are, the greater is the total output of the good produced. We have assumed that production in each industry satisfies the law of diminishing returns. Each additional worker adds less to total industry output than the previous additional worker added. For example, consider the film industry. Beginning from the position of no workers and no output, the first worker employed increases output by 9 units per week. |Table1-3 | |PRODUCTION POSSIBILITIES IN THE | |HYPOTHETICAL ECONOMY | |Employmen|Outpu|Employmen|Outpu| |t |t of |t |t of | |In food |food |In films |films| |4 |25 |0 |0 | |3 |22 |1 |9 | |2 |17 |2 |17 | |1 |10 |3 |24 | |0 |0 |4 |30 | Adding a second worker raises film output only by 8 units per week, taking total film output to 17 units per week. Adding a third worker increases output by only 7 units per week, and the addition of yet more workers leads to even smaller increases in film output. 3. What lies behind the law of diminishing returns? We have implicitly assumed that workers in the film industry have at their disposal a fixed total amount of cameras, studios, and other equipment. The first worker has sole use of all these facilities. When a second worker is added, the two workers must share these facilities. The addition of further workers reduces equipment per worker to even lower levels. Thus, output per worker in the film industry falls as employment in the film industry rises. One worker produces 9 units per week, two workers average only 8^ units per week, and three workers average only 8 units per week. A similar story applies in the food industry. The fixed total supply of available land, water, and fertilizer must be shared between the total workforce. The first worker, using all these resources, produces 10 units of food per week, but output per person falls to 8$ units per week when two workers share these resources, and is only 7\ units per week when three workers share them. Both industries exhibit diminishing returns as additional workers are added. Table 1-3 shows the possible combinations of food and film output that can be produced in the hypothetical economy if all workers are employed. At one extreme, with all workers employed in food production, the economy can produce 25 units of food and 0 units of film. At the other extreme, with all workers employed in the film industry, the economy can produce 30 units of films but no food. By transferring workers from one industry to the other, the economy can produce more of one good, but only at the expense of producing less of the other good. We say that there is a trade-off between food production and film production. In moving down the rows of Table 1-3, society is trading off food for films, giving up units of food production to obtain additional units of film output.

The effect on output per workerindustries exhibit diminishing returnsoff

B. Check your understanding

Now read the text carefully, looking up any new items in a dictionary or reference book. Then answer the following questions:

1. What does the production possibility frontier help us to do?

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2. What rises when the film industry takes on additional workers?

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3. How much does the first worker in the film industry produce?

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4. How much does the second worker produce?

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5. Why does the first worker in the film industry produce more when on his own?\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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6. What happens when employment in the film industry rises?\_\_\_\_\_\_\_

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7. Does the same law of diminishing returns apply to food output?\_\_\_\_

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8. How many units of food do three workers produce?\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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9. What does Table 1-3 assume?\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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10. What happens to the economy when workers are transferred?\_\_\_\_

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C. Increase your vocabularythis section you should use your dictionary to help you answer the questions about the text. 1. Look at the first paragraph and say which words correspond to these definitions: • based on a suggestion or an idea • instrument

. Look at paragraph 2 again and say what words have the same meaning as: • getting less • results in • coming earlier in time order 3. Look at paragraph 3 again. Can you explain the words: • implicitly • at their disposal • equipment • output • resources

. Look at paragraph 4 again and say what words have the same meaning as: • extra • moving from ... to ... • get • make a blow-job. Check your grammarCONDITIONS

Do you remember? If everyone has a job there is full employment. If more workers are employed total output will increase.'ll see the exit opposite you. consumers will try to use less of it. if you pass the exam. if there is high demand. you'll starve. you’ll have to sleep alone you'll fail your exam. you won't be able to pay your bills. you'll have an accident. if you cross the road here. demand is choked off.

. Take one clause from each of the columns below to make one sentence. Make sure your sentences make sense! »

• If you don't eat, • If you drive carelessly, • If you don't study • You'll get run over • If you turn right, • If a commodity price goes up, • If a price is high, • Production is encouraged • If you spend all your money, • You'll get a certificate • If you don’t grab a girlyou remember? If Saudi Arabia didn't have oil, it would not be so rich.

. Now say what you think would be the result if the circumstances below actually happened. Complete the sentences, giving your own opinion:: there/no oil if there were no oil, we would use other fuels. • lose/my notes • economy/collapse • there/50%/unemployment • government/halve/taxes • price/oil/double • we/stop/use/cars • l/give/100,000$ • price/food/come down • girl/boy/together/all night • I/stop/study/now • inflation/double • our currency/lose/all its value

Do you remember? If I had not chosen economics, I would have studied sociology.

. Use the notes below to make complete sentences on the above model: • fail/my/entrance exam • people/not invent/money • Saudi Arabia/not discover/oil • I/not come/this university • government/spend/less/last year

E. Understanding a lecture 1. You are now going to hear part of a lecture, divided into sections to help you understand it. As you listen, answer the questions below.1

• Note down the tool the lecturer is going to talk about.2 • Label the diagram below in the way the lecturer tells you to.3 • Label the diagram below in the way the lecturer tells you to.4 • Label the diagram below in the way the lecturer tells you to.5

• Label the diagram below in the way the lecturer tells you to.6

Note down the term the lecturer uses to describe the line you have drawn.

What is this line called?

• Is this statement correct or incorrect? The line shows the maximum combinations that the economy can produce. (7————————————————————————————— Are these statements correct or incorrect? • A movement from B to C means one or more workers have been transferred. ( • If we transfer a worker we reduce the total output of film.

(

. Now wind the cassette back (o the beginning of the lecture and listen to it again. This time, instead of answering questions, take notes. The questions you have already answered will help you do this. When you have listened to the whole of the lecture, you will be asked lo give a short oral explanation of the diagram you have drawn. So make sure you note down the most important points of the lecture. 3. You should also write an explanation of the diagram, based on your notes.. Understanding a printed text (2)the following text carefully, looking up anything you do not understand,feasible combination

1. To explain why the curve through the points A to Ј is called a 'frontier', let us think about the point C in Figure 1-2. Society is then producing 10 units of food and 17 units of films. This is a feasible combination. From Table 1-3 it can be seen that this requires one person in the food industry and two in the film industry. But with only three people working, society has spare resources because the fourth person is not being employed. C is not a point on the production possibility frontier because it is possible to produce more of one good without sacrificing output of the other good. Putting the extra person to work in the food industry would take us to the point C, yielding 7 extra units of food for the same film output.

FIGURE 1-2 THEPRODUCTION POSSI8ILITV FRONTIER. The production possibility frontier shows the maximum combinations of output that the economy can produce using all available resources. The frontier represents a trade-off; more of one commodity implies less of the other Points such as H lying above the frontier are unattainable. They require more resource Inputs than the economy has available Points such as G inside the frontier are inefficient. By fully utilizing available resource inputs the economy could expand output and produce on the frontier.

[pic] Production possibility frontier

film industry would take us to the point 0, with 7 extra units of films but no loss of food output. : The production possibility frontier shows the points at which society is producing efficiently. More output of one good can be obtained only by sacrificing output of the other good. Points such as G, which lie inside the frontier, are inefficient because society is wasting resources. More output of one good would not require less output of the other. In our hypothetical example, the waste or inefficiency arises because some members of the potential workforce are not being used to produce goods. Points that lie outside the production possibility frontier, such as the point H in Figure 1-2, are said to be unattainable. It would be nice to have even more food and films but, given the amount of labour available, it is simply impossible to produce this output combination. Scarcity of resources, in this example the restriction that at most only four workers are available for producing goods, limits society to a choice of points that lie inside or on the production possibility frontier. Society has to accept that its resources are scarce and make choices about how to allocate these scarce resources between competing uses. In this example, the competing uses are employment in the food industry and employment in the film industry. Given that people like food and films, society should want to produce efficiently. To select a point inside the production possibility frontier is to sacrifice output unnecessarily. Society's problem is therefore to make a choice between the different points that lie ort the production possibility frontier. In so doing, it decides what to produce. It might select the point A, with no films but a lot of food, or the point C, with a more balanced mixture of food and films. Depending on society's preferences between food and films, it might choose any point on the production possibility frontier. However, in choosing a particular point, society will also be choosing how to produce. It will then be necessary to refer back to Table 1-3 to determine how many workers must be allocated to each of the industries to produce the desired output combination. As yet, our example is too simple to show for whom society produces. To answer that question, we need more information than the position on the production possibility frontier. Efficient production Inefficient production Unattainable points Society must choose Society's problem What society decide'\*

G. Check your understandingthese statements correct or incorrect?

• At point G society has spare resources. ( • C is not on the production possibility frontier because one worker is

employed in another industry. ( • If the extra person joins the film industry food output will go down. ( • Point C is feasible but not efficient. ( • Point H is a point which cannot be achieved. ( • Point H is unattainable because there are not enough workers. ( • Society must choose between inefficient and unattainable points. ( • Society can choose to produce at any point on the frontier. ( • Society's choice of point on the frontier does not affect how it produces. ( • The example the writer has given can easily answer the question

'for whom' society produces. (

H. Understanding discourse

[pic] Entrance

You want to find: • dictionaries ( • reference books ( • magazines ( • newspapers ( • books on macroeconomics (

• International Monetary Fund bulletins ( • World Bank reports ( • International Monetary Fund bulletins ( • government statistics (

----------------------is not on (he productionfrontier)