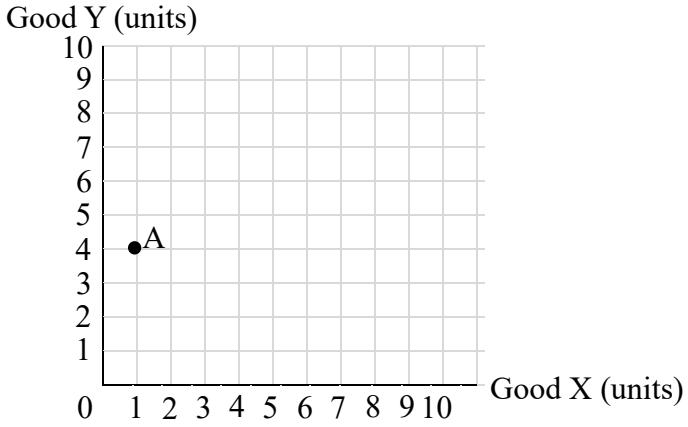
28.1 Introduction to Production Possibility Frontiers (PPF)

1. A production possibility frontier (PPF) shows all the _____ _____ of two goods that an economy can produce with given _____ and _____.

2. With all its resources, Country A can produce 8 units of good X or 6 units of good Y. The marginal cost of producing an additional unit of good X or good Y is constant.



(a) Draw the production possibility frontier of Country A (PPF_1).

(b) Country A will not produce at point A because _____ _____.

(c) Suppose Country A discovers new production technology that raises the production of good Y by 50%.

(i) Draw the new production possibility frontier of Country A (PPF_2).

(ii) The marginal cost of producing good X *(increases / decreases / remains unchanged)*.

3. If a country's PPF is concave to the origin, this means that the country's marginal cost of production _____.

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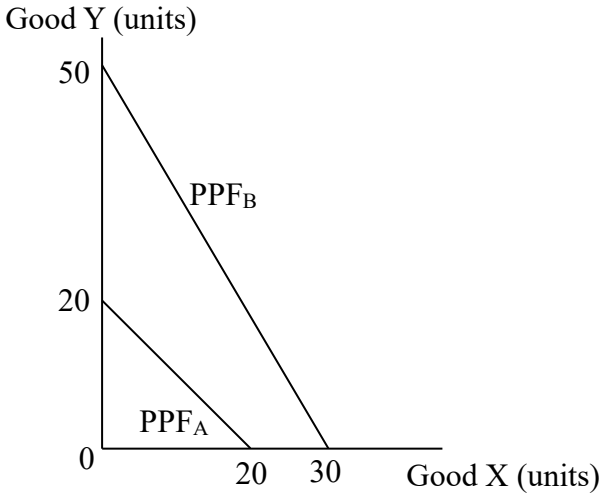
28.2 Illustrating Gains from Trade Using PPF

4. The diagram below shows the production possibility frontiers (PPF) of Country A and Country B.



(a) Explain why the production possibility frontiers of Country A and Country B are straight lines.

(b) Explain which country has an absolute advantage in producing good X.

(c) Explain which country has a comparative advantage in producing good X.

(d) Suppose both countries engage in complete specialisation according to their comparative advantages, and the terms of trade is 1 unit of good X = 1.5 units of good Y. Indicate in the diagram:

(i) the production point of Country A (P_A) after specialisation

(ii) the consumption possibility curve of Country A (CPF_A) after trade

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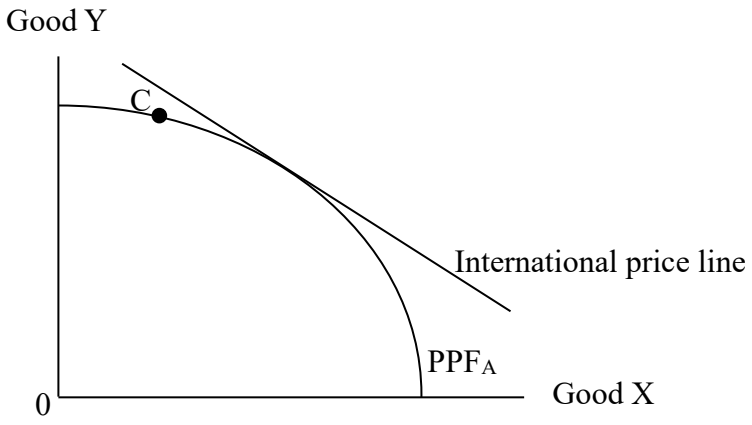
5. The diagram below shows the production possibility frontier of Country A (PPF_A). Point C is its consumption point before trade.



(a) As Country A's opportunity cost of producing good X is *(higher / lower)* than the international price, Country A *(has / does not have)* a comparative advantage in producing good X.

(b) Suppose Country A consumes the same amount of good X after trade as before. Indicate in the above diagram:

(i) the production point of Country A (P_T) after trade

(ii) the consumption point of Country A (C_T) after trade

(iii) the import volume and the export volume of Country A

(c) Country X *(will / will not)* gain from trade, because _____

_____.

28.3 Comparative Advantage and Its Relation to Globalisation

6. Globalisation is the process that economies of different countries around the world become more integrated and interdependent as a result of increasing

_____.

7. State **TWO** advantages that may be brought by globalisation.

_____

_____

8. State **TWO** disadvantages that may be brought by globalisation.

_____

_____

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