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ECON 1101
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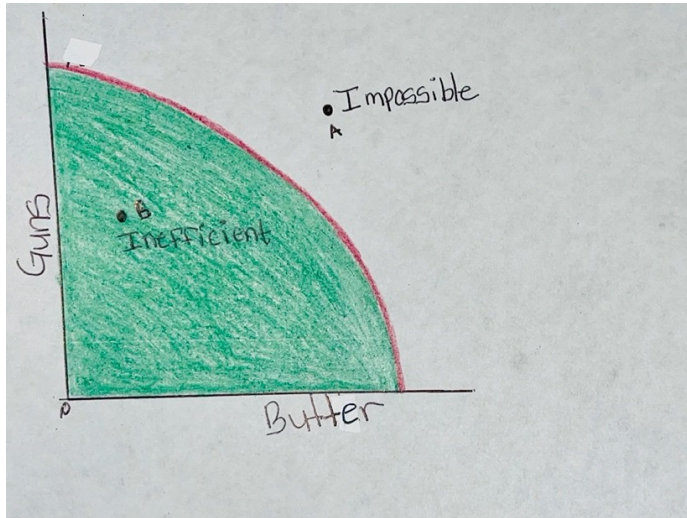
2. Imagine a society that produces military goods and consumer goods, which we'll call "guns" and "butter."

a. Draw a production possibilities frontier for guns and butter. Using the concept of opportunity cost, explain why it most likely has a bowed-out shape.



It is curved out as the potential cost of butter is determined by the amount of butter and the number of weapons produced by the economy. At the time the economy produces a huge amount of butter, people and equipment that are most suited for manufacturing guns are employed to manufacture butter, thus each unit of weapons that is given up results in a modest rise in butter output. As a result, the border is narrow and the expense of making butter is considerable. When the economy produces a lot of weapons, people and equipment that would be better suited to manufacturing butter are employed to create firearms, resulting in a significant gain in butter output for every unit of guns given up. As a result, the border is extremely flat, and the cost of making butter is cheap.

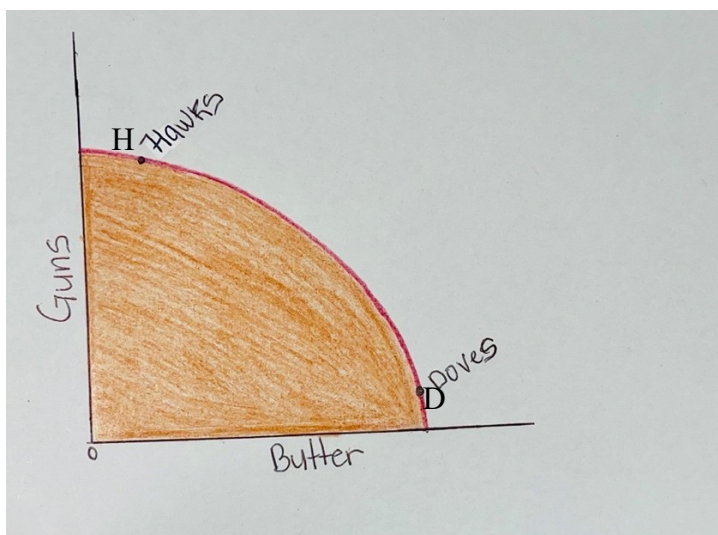
b. Show a point that is impossible for the economy to achieve. Show a point that is feasible but inefficient.



Point A is not possible to be attained by the economy since it is outside the production possibilities frontier. Point B is viable but ineffective since it is inside the production possibilities frontier.

c. Imagine that the society has two political parties, called the Hawks (who want a strong military) and the Doves (who want a smaller military). Show a point on your production possibilities frontier that the Hawks might choose and a point the Doves might choose.

The Hawks could go for an instant such as H, which has a lot of weapons but not a lot of butter. The Doves could pick an instant such as D, which has a huge amount of butter but less weapons.



d. Imagine that an aggressive neighboring country reduces the size of its military. As a result, both the Hawks and the Doves reduce their desired production of guns by the same amount. Which party would get the bigger “peace dividend,” measured by the increase in butter production? Explain.

The Hawks would receive a larger peace bonus if both Doves and Hawks decreased their desired number of weapons by the same amount since the production possibilities frontier is considerably levelled at instant H than it is at instant D. As a consequence, beginning at point H, reducing a given number of guns results in a significantly greater upsurge in the amount of butter yielded than beginning at instant D.