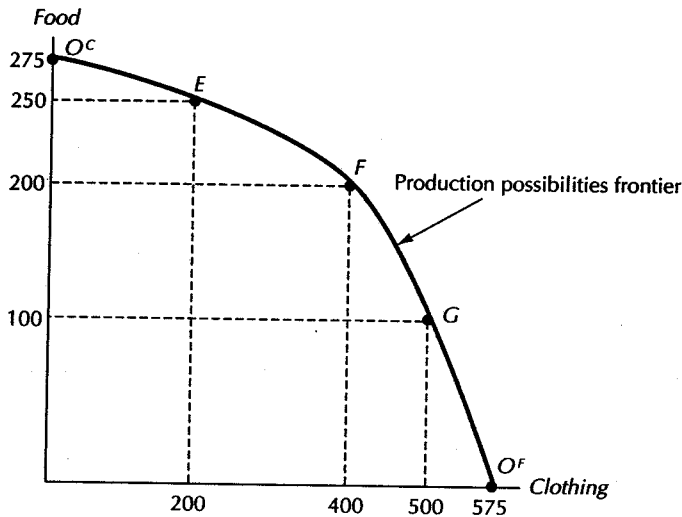
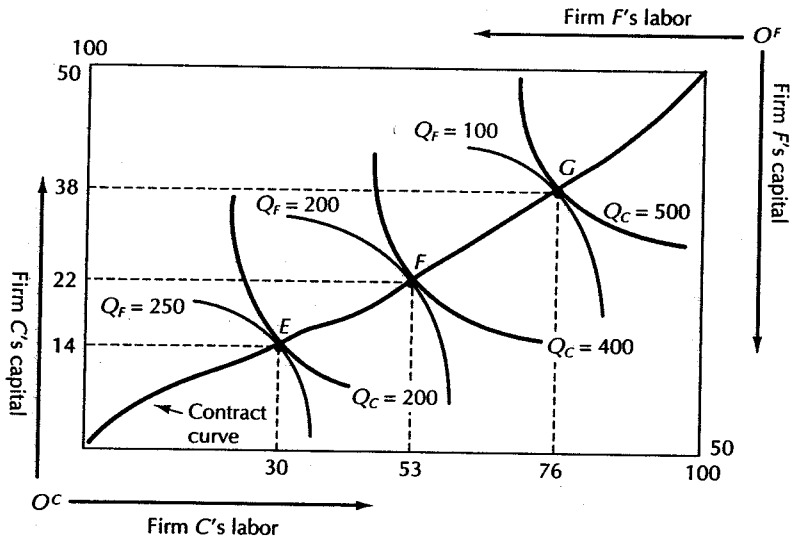


FIGURE 16-11

GENERATING THE PRODUCTION POSSIBILITIES FRONTIER

Each point on the contract curve in the Edgeworth production box (top panel) gives rise to specific quantities of food and clothing production. The food-clothing pairs that lie along the contract curve are plotted in the bottom panel, and their locus is called the production possibilities frontier. Movements to the northeast along the contract curve correspond to movements downward along the production possibilities frontier.



EXERCISE 16-4

In the economy shown in Figure 16-11, suppose that a technical change occurs in the clothing industry that makes any given combination of funds and capital yield twice as much clothing as before. Show the effect of this change on the production possibilities frontier.