classmate

Date
Page

Opportunity Cost Principle

→ Opportunity cost represents the potential benefits that an individual, investor or business misses out when choosing one alternative over other. Because opportunity cost are unseen by definition, they can be easily overlooked. Understanding the potential missed opportunity when a business or individual choose one investment over another allows for better decision making.

→ To properly evaluate opportunity costs, the costs and benefits of every option available must be considered and weighted against the others.

→ Considering the value of opportunity costs can guide invidvals and organization to more profitiable decision making.

Formula

→ Opportunity Cost = FO - CO
FO = Return on best foregone option.
CO = Return on chosen option.

Rate OF Return = {(current value - Initial value) ÷ Initial value} x 100

Production Possibility Curve/Frontier

→ The PPF is a curve on a graph that illustrates the possible quantities that can be produced of two products if both depend upon the same finite resource for their manufacture.

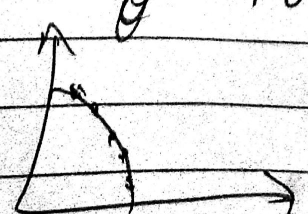
→ PPF also plays a crucial role in economics. For ex- it can demonstrate that a nation's economy has reached the highest level of efficiency possible.

→ PPF demonstrates that the production of one commodity may increase only if the production of the other ~~good~~ commodity decreases.

Assumptions

1.) A company/economy wants to produce two goods.
2.) There are limited resources.
3.) Technology and Techniques remain constant
(4) All resources are fully and efficiently used.

Production Efficiency :- It means that, given the available inputs and technology, it is impossible to produce more of one good without decreasing the quantity that is produced of another good. All choices on the PPF in the graph, including A, B, C, D, F ~~[illegible]~~ displays productive efficiency



Allocative efficiency:- Allocative efficiency means producers supply the quantity of each product that consumers demand. Only one of the productively efficient choices will be the allocative efficient choice for society as a whole.

Incremental Concept :-

Incremental principle states that a decision is profitable if revenue is more than the cost.

2 Concepts

(1) Incremental Cost
(2) Incremental Revenue