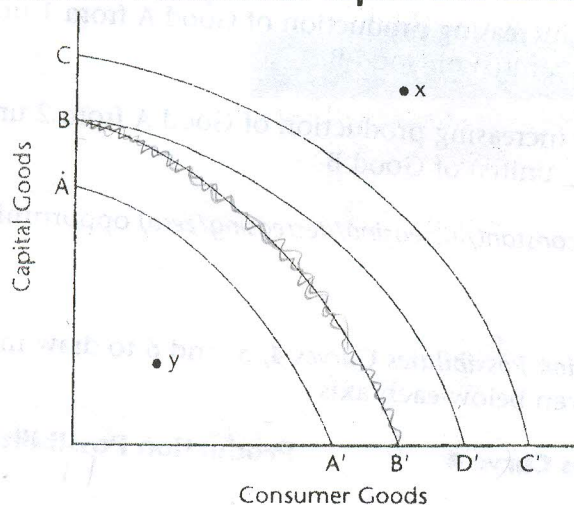


ACTIVITY 2 continued

Part C.

Use the following production possibilities diagram to answer each of the questions that follow. Each question starts with curve **BB'** as a country's production possibilities curve.

Production Possibilities: Capital and Consumer Goods



1. Suppose there is a major technological breakthrough in the consumer goods industry, and the new technology is widely adopted. Which curve in the diagram would represent the new production possibilities curve? (Indicate the curve you choose with two letters.) _____
2. Suppose that a new government that forbids the use of automated machinery and modern production techniques in all industries comes into power. Which curve in the diagram would represent the new production possibilities curve? (Indicate the curve you choose with two letters.) _____
3. Suppose massive new sources of oil and coal are found within the economy, and there are major technological innovations in both sectors of the economy. Which curve in the diagram would represent the new production possibilities curve? (Indicate the curve you choose with two letters.) _____
4. If **BB'** represents a country's current production possibilities frontier, what can you say about a point like **x**? (Write a brief statement.)
5. If **BB'** represents a country's current production possibilities frontier, what can you say about a point like **y**? (Write a brief statement.)