“To what extent should economies concentrate on the production of consumer goods rather than capital goods?”

Capital goods are man-made aids to production, these are most often machines or buildings. Capital goods are used in the production of more capital goods, and also in the production of consumer goods. Consumer goods are the goods and services that are produced for the consumer.

In general capital goods are those purchased by businesses and consumer goods are those purchased in the domestic environment.

Resources are limited, and so there is a limit to what can be produced using these resources. If some resources are used in the production of capital goods then these resources cannot be used to produce consumer goods. This choice between the allocation of resources from one application to another is called opportunity cost. The various combinations of these goods that an economy, or sector of an economy is able to be produced can be illustrated on a diagram:
This shows the possible combinations within an economy. The curved line in the diagram is called a Production Possibility Frontier, or PPF. It represents the output of an economy when all the resources are efficiently used in production.

Suppose then, that an economy is at point ‘A’ on the curve. Here lots of consumer goods are being produced, and a reasonable amount of capital goods are being produced. However, from this point for a small increment in the production of consumer goods there is a very large opportunity cost in the production of capital goods.

This is because to make this increment (indicated by the red arrows) increasingly less suitable resources are being transferred to the production of consumer goods, a use to which they are less suited.

This same effect of an increasing opportunity cost as the end of the curve is reached is also witnessed in the transition from consumer goods to capital goods.

Higher production of consumer goods brings the benefits of higher living standards now. This though is not sustainable though as the machinery that produces the consumer goods will wear out. This use of capital goods is referred to as capital consumption. Therefore, enough capital goods need to be produced to replenish those used in capital consumption.
The production of capital goods is an investment in the future. The production of capital goods allows for a future increase in the production of consumer goods, and so even better living standards in the future could be attained than by producing all consumer goods now.

In reality it is impossible to reach either end of the PPF and produce entirely one type of good, a certain amount of consumer goods are required for living and a certain amount of capital goods required to replace those used.

Many third world countries have fewer resources than developed nations, and so are forced nearer to the ends of the PPF. They are forced to produce enough consumer goods to keep their population alive. This amount that is necessary to keep a population alive is called subsistence. The economy is pushed to the ends of the PPF so the country suffers a large opportunity cost yet cannot move from this point as otherwise the population would die.

Developed nations most often have a capacity in their economy to produce excess consumer or capital goods than are needed to remain subsistent or to replace capital consumption. Net investment needs to be greater than capital consumption now, which will result in even better living standards tomorrow. However, surplus production of consumer goods is necessary for a policy maker to be favoured politically. To what extent depends on societies desires.