

Handy Dandy Guide for Economic Reasoning

An Introduction to Economics



1. People make choices.

- We cannot have everything we want!
- Regardless of income or level of wealth, everyone has to make decisions.
- SCARCITY
 - Unlimited wants
 - Limited resources

(Pout-faces, tears, tantrums come in!)



2. All choices have costs.

- When we choose one option, we give up the opportunity to do something else.
- OPPORTUNITY COST
 - The opportunity or option forgone
 - Our second best choice



More On Choices!

- We don't intentionally make **bad choices**, but sometimes it happens.
- When **making choices**, we weigh the expected **benefits** vs. the expected **costs** of all alternatives and choose the option with the **greatest benefits** and **least costs**.

- May be called *cost-benefit analysis*
- Also called *economic reasoning*



3. People respond to incentives.

- We can **change** how people will respond (or what choices they make) by **changing the incentives**.
 - Incentives are rewards
 - Disincentives are punishments
- Response to changes in incentives is **predictable**.
- If we **change the incentives**,
- we **change the behavior**.



4. Economic systems influence choices and incentives.

- We are governed by written and unwritten rules.
- Different economic systems have different rules.
- As rules change, incentives change and choices change....changing our behavior.



5. Voluntary trade creates wealth.

- We produce more when doing what we do best.
- Surplus production can be traded in the marketplace for other valuable goods and services.
- **Wealth is more than money!**



6. Consequences of our choices are in the future.

- The results of our choices are not just today; they may have **long-term consequences**.
- Economics stresses what may or will happen in the future because we **cannot change or influence the past**.



Economic Thinking!

- If you remember these 6 guidelines, you will be thinking like an **ECONOMIST** and **You will be successful in your life!**


