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!