Ch.1 outline

Scarcity – fundamental concept of economics that indicates that a good is less freely available than consumers would like

Choice – the act of selecting among alternatives

Scarcity and choice are the two essential parts of economics

The economic way of thinking

The eight guideposts of economic thinking (you don’t need to know them specifically – just know generally how they influence economic behavior)

1. the use of scarce resources to produce a good is always costly no production of a good is free of cost

2. individuals choose purposefully; they try to get the most from their limited resources people do not deliberately waste valuable resources because these resources could increase their utility (benefit from a choice)

3. incentives matter – choice is influenced in a predictable way by change in economic incentives the decisions people make will change with respect to a change in the costs or benefits of those decisions

4. economic thinking is marginal thinking the cost of adding one more unit of good (what is the value of producing one more good – that is marginal value)

5. the acquisition of information is costly information can help people make better decisions, but information is a scarce good – the time it takes to search for the information is time that could be spent doing something else

6. economic actions often generate secondary effects in addition to their immediate effects secondary effects are effects of a policy change that might not be noticeable when the policy change is implemented
7. the value of a good or service is subjective what one good is worth to person A, may have a completely different value by person B (I like pizza with extra cheese, I value it highly. You are allergic to dairy products, so you place a low value on a pizza with extra cheese)

8. the test of a theory is its ability to predict

Positive and normative economics

Positive economics – the study of “what is” among economic relationships For instance, positive statements can be statistically evaluated.

Normative economics – judgments about “what ought to be” in economic matters Normative statements merely reflect people’s values – these statements cannot be proven true or false by economic thinking (think of it as a politician’s views on any matter – abortion, capital punishment, etc. Those opinions cannot be proven right or wrong – they can merely be judged)