Thinking Like an Economist

Principles of Economics

Principle #1: Scarcity
People have unlimited wants and needs, but we have limited resources, therefore everything is scarce. Examples of things that are scarce:

- Food
- Housing
- Healthcare

Principle #2: Trade-off
In order to get something, we must give up something else. This is the concept of opportunity cost.

Principle #3: There Are No Costless Decisions
We cannot have everything we want, so there is always a trade-off. Opportunity cost is the value of the next best alternative.

- Choosing a college major means giving up other majors you could have pursued.

Principle #4: Rationality
Economists assume that people make rational decisions, aiming to maximize their utility.

- People choose the option that provides the greatest satisfaction given their budget constraints.

Principle #5: Self-Interest
Individuals and firms pursue their self-interest, which often leads to overall societal benefit.

Economic incentives drive decisions, including saving, investing, and innovating.

Principle #6: Resource Allocation
Economists study how resources are allocated to meet society's needs.

- Efficient allocation involves ensuring that resources are used in a way that maximizes the overall well-being of society.

Prezi
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Principles of Economics

Principle #1: Scarcity
People have unlimited wants and needs, but we have limited resources, therefore everything is scarce.
Examples of things that are scarce:

Principle #2: There Are No Costless Decisions
We cannot have everything we want, or pay nothing.
Therefore, a decision is always made. Opportunity cost is the most valuable driver of behavior when making a decision.
Principles of Economics
Economics is a Social Science
THE WORLD’S RICHEST 1%

United States  Canada  Switzerland, Spain, Australia, Netherlands, Taiwan, Chile, Singapore, others
Germany  Korea  Japan
France  Brazil
Italy  Great Britain

= ONE MILLION PEOPLE

SOURCE: THE HAVEST AND THE HAVE-NOTS, BY WORLD BANK ECONOMIST BRANKO MILANOVIC
There are definite and observable patterns in the ways people act and interact, so we approach it scientifically = laws of economics.
Principle #1 Scarcity

People have unlimited wants and needs, but we have limited resources, therefore everything is scarce.

Examples of things that are scarce?
No one can have an endless supply of everything!

Why are goods and services scarce?
Goods and services are all scarce because they are made from resources that are scarce.

Is air scarce?
In certain situations, yes. We call this relative scarcity.

Ex. Stay under water for a minute and see if air is scarce.
Scarcity means there is not enough for everyone :(
Scarcity v. Shortage

Shortages do not always exist. They only exist when producers will not or cannot offer goods or services. Shortages can be temporary or long-term.

- Scarcity always exists.
  Ex. Oranges
Principle #2: There Are No Costless Decisions

We can’t have everything we want, so we choose. Therefore, choosing is refusing.

*Opportunity Cost* = the most desirable alternative given up when making a decision.
What's wrong with these pictures?

**$1 CASH BACK**

OFFICIAL REBATE MAIL-IN REDEMPTION FORM

Please complete the following information:

Name ___________________________
Address ________________________
City __________________ State _____ Zip ______

Please mail this card along with the original UPC code and a copy of the receipt to the address on the back. Please allow 6-8 weeks to receive your rebate check.
Examples of opportunity cost in your life:

<table>
<thead>
<tr>
<th>Action</th>
<th>Time Spent</th>
<th>Opportunity Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Going out to dinner</td>
<td>3 hours of homework</td>
<td></td>
</tr>
<tr>
<td>YMCA!</td>
<td>2 hours of sleep</td>
<td></td>
</tr>
</tbody>
</table>
What is the difference between trade-off and opportunity cost?

Trade-off are all of the alternatives given up when making a decision, while opportunity cost is the most desirable alternative given up.
Opportunity Cost can be high or low......
**Buyers Remorse**—the reason buyers may sometimes feel some degree of remorse after making a purchase is that they find themselves grieving the loss of the next best alternative.

Examples: 1. New car
   A dealer will contact you ASAP to congratulate you on your fine purchase.
2. Ordering food - waitress “Oh, that’s a very good choice.”
What does it cost you?
Answer the opportunity cost questions on your own...
Principle #3: People regularly pursue their own self-interest

When we make our choices, we take into account the things we care about.

It’s more than being selfish:

1. People care about pets - pet supply industry
2. People want the cheapest prices - discount sales matter
3. People care about the environment - laws/regulation
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Principle #1: Scarcity
People have unlimited wants and needs, but we have limited resources. Therefore, everything is scarce.

Examples of things that are scarce:
- Love
- Good health
- Friends
- Money
- Time

Principle #2: Resource Allocation
Decisions must be made on how to allocate resources.

Opportunity Cost: The cost of choosing one option over another.

Action + Opportunity Cost = Total Cost