

Introduction

Although the study of economics has many facets, the field is unified by several central ideas. The Ten Principles of Economics offer an overview of what economics is all about.

Credit: N. Gregory Mankiw, Professor of Economics; Harvard University.

<http://www.swlearning.com/economics/mankiw/principles2e/auth-or.html>

How People Make Decisions

People Face Tradeoffs.

1. To get one thing, you have to give up something else. Making decisions requires trading off one goal against another.

2. The Cost of Something is What You Give Up to Get It.

Decision-makers have to consider both the obvious and implicit costs of their actions.**

3. Rational People Think at the Margin.

A rational decision-maker takes action if and only if the marginal benefit of the action exceeds the marginal cost.

4. People Respond to Incentives.

Behavior changes when costs or benefits change.

How the Economy Works as a Whole

5. Trade Can Make Everyone Better Off.

Trade allows each person to specialize in the activities he or she does best. By trading with others, people can buy a greater variety of goods or services.

6. Markets Are Usually a Good Way to Organize Economic Activity.

Households and firms that interact in market economies act as if they are guided by an "invisible hand" that leads the market to allocate resources efficiently. The opposite of this is economic activity that is organized by a central planner within the government.

7. Governments Can Sometimes Improve Market Outcomes.

When a market fails to allocate resources efficiently, the government can change the outcome through public policy. Examples are regulations against monopolies and pollution.

How People Interact

8. A Country's Standard of Living Depends on Its Ability to Produce Goods and Services.

Countries whose workers produce a large quantity of goods and services per unit of time enjoy a high standard of living. Similarly, as a nation's productivity grows, so does its average income.

9. Prices Rise When the Government Prints Too Much Money.

When a government creates large quantities of the nation's money, the value of the money falls. As a result, prices increase, requiring more of the same money to buy goods and services.

10. Society Faces a Short-Run Tradeoff Between Inflation and Unemployment.

Reducing inflation often causes a temporary rise in unemployment. This tradeoff is crucial for understanding the short-run effects of changes in taxes, government spending and monetary policy.

