Meghan Tahbaz
Period 1

Chapter 1: Ten Principles of Economics

Introduction

-Economics = result of the decisions people make (what products to buy, how much they work, etc.)

-Economists study people's decisions, market trends, and interpersonal communication

Principle 1: People Face Trade-offs

-Economics are affected by the decisions people make; for every item chosen, there is another item that is not

- Ex: more money spent on foreign affairs = less money spent on domestic affairs

-Conflict between efficiency and equity in government

- Government distributes welfare = larger equity (economic prosperity for all)
- Government taxes rich to provide welfare = less reward means less incentive to work hard ∴ people work less and fewer goods produced (less efficiency)

Principle 2: The Cost of Something Is What You Give Up to Get It

-Making decisions requires comparison of costs (opportunity costs)

- Ex: going to college has benefits & costs money + time that could be spent working

Principle 3: Rational People Think at the Margin

-People assess the value of making small adjustments to increase profits

-Marginal cost: perceived cost of a change made in price, quantity, etc.

- Ex: airplane with open seats sells standby tickets cheaper b/c they will still make more of a profit than having empty seats on the plane

-Marginal benefit: benefit of paying extra for a good; based on the quantity available

-Marginal benefit should exceed marginal cost for a good decision

Principle 4: People Respond to Incentives

-Incentives prompt people to act and make decisions

- Ex: policy makers raise taxes on gasoline → less people drive cars

Principle 5: Trade Can Make Everyone Better Off

-Trading with others allows individuals/countries to specialize in what they do best ∴ people can buy goods and services at lower costs b/c they don't need to produce items themselves