

Theories, Principles, and Models

A. Economics rely on the Scientific Method

1. observing behavior of people
2. hypothesize
3. Test hypothesis
4. Accepting / rejecting hypothesis
5. Continue testing

6. Economic Principle - A statement about economic behavior or the economy that enables prediction of probable effects of certain actions.

B. Economic Principles

1. Generalizations

I. Price falls = more consumption

2. Other things equal assumption

I. They assume that all variables

except those under immediate

consideration are held constant for analysis.

3. Graphical Expression

I. Horizontal axis = income = Cause

II. Vertical axis = Consumption = effect

Micro and Macro

~~Micro and Macro~~

1. Microeconomics

A. decision making by individuals

2. Macroeconomics

A. the economy as a whole

B. Basic subdivision of aggregates

1. millions of consumers = "consumers"

Origin of the idea

B. 1.4

Causes of the idea

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