

The Ten Principles of Economics

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What is Economics?

The boring definition of economics

1. Economics is the study of how society manages its scarce resources
2. The allocation of the scarce resources is made by a large number of households and firms
3. Economists study how individuals make decisions on how many hours to work, what to buy, how much to save and invest
4. Economists also study the interactions between agents

A more interesting definition

"Economics is the study of mankind in the ordinary business of life"

Economics is about people and what affects them

Some interesting questions economist try to answer

- What determines the price of avocados?
- How much does an extra year of schooling affect future earnings?
- What are the causes behind the gender pay gap?
- How does racial bias affect the Black--White earnings gap?
- Do football coaches punt on 4th down more than they should?
- Does gaming affect how much young men work?

Some interesting questions economist try to answer



This class will not help you with stocks



The Ten Principles of Economics

How people make decisions

An economy is made of people. Therefore, it is important to learn about the decision making process that individuals overgo.

1. People face trade-offs

Making any decision requires giving up something for another goal.

Example:

A college student has to allocate time between studying and watching Netflix. They can spend all their time studying, watching Netflix or a mixture of both. One extra hour of watching Netflix is one less hour they can spend on studying economics.

How people make decisions

2. The cost of something is what you give up to get it

opportunity cost: Whatever must be given to obtain some item.

The economic cost of a decision is not obvious. Consider the following example.

Example:

The cost of going to college is not only what you spend on housing, books, food and tuition. It is also the wages you are giving up to be here today. These lost wages are an example of the opportunity cost of going to college.

3. Rational people think at the margin

- Netflix costs \$10
- You watched 9 movie in a month
- What's the cost of watching 10 movies in one month?

How people make decisions

4. People respon to incentives

- How do people respond to a tax on gas?
- How did people respond to a seatbelt law?
 - How did football players respond to helmets becoming safer?

How people interact

5. Trade Can Make Everyone Better Off
6. Markets Are Usually a Good Way to Organize Economic Activity
7. Governments Can Sometimes Improve Market Outcomes

How the Economy as a Whole Works?

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

9. Prices Rise When the Government Prints Too Much Money

10. Society Faces a Short-Run Trade-Off between Inflation and Unemployment