



Ten Principles of Economics

Chapter 1

Economy. . .

. . . The word **economy** comes from a Greek word for “one who manages a household.”

Society and Scarce Resources:

- ✓ The management of society’s resources is important because resources are scarce.
- ✓ Scarcity implies choice and choice implies cost.

Scarcity . . .

. . . means that society has limited resources and therefore cannot produce all the goods and services people wish to have.

Economics

Economics is the study of how society manages its scarce resources.

Economists study. . .

- ◆ *How people make decisions.*
- ◆ *How people interact with each other.*
- ◆ *The forces and trends that affect the economy as a whole.*

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How People Make Decisions

1. People face tradeoffs.
2. The cost of something is what you give up to get it.
3. Rational people think at the margin.
4. People respond to incentives.

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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 economic outcomes.

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How the Economy as a Whole Works

8. The standard of living depends on a country's production.
9. Prices rise when the government prints too much money.
10. Society faces a short-run tradeoff between inflation and unemployment.
