



Intro to Economics (Deck 1): Thinking Like an Economist

CHAOUAT ECONOMICS LAB

35–50 MINUTES

Explore the fundamental principles that shape economic reasoning: scarcity, choice, incentives, and trade-offs. This introductory deck provides the foundation for understanding how economists analyze decisions and outcomes in a world of limited resources.

What Economics Studies

Economics is the study of **choices under scarcity**—how individuals, businesses, and governments allocate limited resources to satisfy unlimited wants. From household budgets to global trade agreements, economic reasoning helps us understand behavior constrained by reality.

What Economists Analyze

- Households making consumption and saving decisions
- Firms choosing production methods and pricing strategies
- Governments designing policies and regulations
- Markets coordinating buyers and sellers

Economics = behavior + constraints + institutions





Scarcity, Choice, and Opportunity Cost

Scarcity Forces Choices

Limited resources (time, money, energy, attention) mean we cannot have everything we want. Every society, organization, and individual faces constraints.

Choosing Means Giving Up

Selecting one option inherently means rejecting others. The act of choosing reveals what we value most given our constraints.

Opportunity Cost

The value of the **best alternative** you sacrifice when making a decision. It includes time, foregone experiences, and unrealized potential, not just money spent.

- **Example:** Spending two hours studying economics tonight means giving up exercise, sleep, working on another project, or socializing. The opportunity cost is whichever of these you value most.

Marginal Thinking

Most real-world decisions aren't "all or nothing", they involve adjustments at the margin. Should you study one more hour? Hire one more employee? Produce one more unit? Economic reasoning focuses on **incremental changes**.



Marginal Benefit (MB)

The additional satisfaction, revenue, or value gained from one more unit of an activity



Compare MB vs MC

Rational decision-making involves weighing the extra benefits against the extra costs



Marginal Cost (MC)

The additional sacrifice, expense, or effort required for one more unit of an activity

Decision Rule

Do more of an activity when **MB ≥ MC**

Stop when **MB < MC**



Incentives Shape Behavior

Incentives alter the costs or benefits of actions, influencing what people choose to do. Understanding incentives is crucial for predicting responses to policies, prices, and institutional changes.



Prices

Wages, taxes, subsidies, and prices directly change what you pay or earn from different choices



Rules

Regulations, penalties, eligibility requirements, and enforcement mechanisms constrain or enable specific behaviors



Social Norms

Reputation, peer pressure, cultural expectations, and community standards influence decisions beyond monetary considerations



Information

Beliefs, expectations, transparency, and access to knowledge shape how people evaluate their options

People respond to incentives, **though not perfectly or mechanically**. Incentives don't require selfishness; they simply mean consequences matter.

Gains from Trade

Not Everything Is Zero-Sum

A common misconception is that trade creates winners only by creating losers. In reality, **voluntary exchange can produce mutual gains** when both parties value what they receive more than what they give up.

01

Different Preferences

You prefer coffee over tea; I prefer tea over coffee. Trading creates value for both of us without producing anything new.

02

Specialization

When individuals or nations focus on what they do relatively better (comparative advantage), total production increases.

03

Distribution Matters

Even when trade expands the total pie, some groups may lose. Policy design must consider both efficiency gains and distributional consequences.

- ❑ **Policy Lens:** Tariffs, quotas, sanctions, and trade barriers change incentives and can shrink or reshape economic gains. Understanding who benefits and who bears costs is essential for informed policy debates.

Models + Positive vs Normative Analysis

Why Economists Use Models

Models are **simplified representations of reality** designed to isolate key relationships and make predictions. By abstracting from unnecessary detail, models help us understand complex systems.

Models Help Us:

- Explain observed patterns in data and behavior
- Predict how people respond to policy changes
- Evaluate trade-offs between different options
- Test theories against evidence



Positive Economics

What is: Testable claims about how the world works

Example: "A \$1 cigarette tax reduces consumption by 10%"

Normative Economics

What should be: Value judgments about desirable outcomes

Example: "The government should tax cigarettes heavily"

Productive debates separate **empirical disagreements** (facts we can test) from **value disagreements** (priorities we debate).

Correlation vs Causation

Why Evidence and Methods Matter

Correlation

Two variables (A and B) move together, they have a statistical association. This pattern alone doesn't tell us *why* they move together.

Causation

One variable (A) directly **produces** a change in another variable (B). Establishing causation requires ruling out alternative explanations.

Reverse Causality

Maybe B causes A instead of A causing B: the direction of influence runs backwards

Omitted Variables

A third factor (C) might influence both A and B, creating a spurious correlation

Selection Bias

The sample we observe differs systematically from the population, distorting apparent relationships

Example: Students who study more often earn higher grades. Studying likely helps, but motivation, prior preparation, and natural ability also matter. Mistaking correlation for causation leads to ineffective policies and wasted resources.

Efficiency vs Equity + The Role of Institutions



Efficiency

Maximizing total value created from scarce resources—getting the most output from given inputs, eliminating waste



Equity

How benefits and costs are distributed across individuals and groups—fairness in outcomes and opportunities

Many policies involve **trade-offs between efficiency and equity**. For example, progressive taxation may enhance equity but could affect work incentives. The key questions are: How large are these effects? How can policy design minimize conflicts?

Institutions: The Rules of the Game



Institutions—property rights, legal systems, enforcement mechanisms, cultural norms—shape the incentive structure within which individuals and firms operate.

Institutions Influence:

- Investment decisions and entrepreneurship
- Compliance with laws and contracts
- Competition and innovation
- Trust and cooperation

Similar policies can succeed in one institutional context and fail in another. Understanding institutions is essential for predicting policy outcomes.

Core Visual Tools + Activity + Next Steps

Two Essential Graphs in Economics



Production Possibilities Frontier (PPF)

Illustrates trade-offs between two goods given scarce resources. Points on the frontier are efficient; inside means underutilized resources; outside is currently unattainable. Growth shifts the PPF outward.

Supply & Demand

Shows how markets coordinate buyers and sellers to reach equilibrium. Price adjusts to balance quantity demanded and quantity supplied. We'll explore this deeply in **Deck 2**.

5-Minute Reflection Activity

01

Identify Your Opportunity Cost

What will you do tonight? Write down the best alternative you're giving up by making that choice.

02

Apply Marginal Thinking

If you're studying tonight, decide when to stop. Keep going while marginal benefit > marginal cost. Stop when $MB < MC$.

- ☐ **Next Up:** Deck 2 — Supply, Demand, and Market Equilibrium. We'll examine how prices coordinate decentralized decisions, what causes supply and demand to shift, and how markets respond to shocks and policies.