

Module 1 Review

either /
or decisions

Cost-Benefit Principle: evaluate the full set of costs & benefits of any choice & pursue only those choices with benefits \geq costs
economic surplus := total benefits - total costs

Opportunity Cost Principle

opportunity cost := the next best alternative you give up to pursue a choice

production possibilities frontier (PPF): illustrates the trade off between 2 choices

how
much
decisions

Marginal Principle: decisions should be broken down into smaller decisions

sunk cost := cost that has been incurred & cannot be reversed

marginal benefit := extra benefit from 1 more unit

marginal cost := extra cost of 1 more unit

the rational rule: keep doing something until $MB = MC$

The Interdependence Principle: your best choice depends on outside changing factors

4 MISTAKES:

1. UNINTENDED CONSEQUENCES

2. ASSOCIATION \neq CAUSATION

3. FALLACY OF COMPOSITION

4. SAMPLE SELECTION BIAS