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People Face Trade offs

People have to select between choices as they cannot have everything. A common example is where a person may allocate their time: either playing sports or studying. In the short run, both activities can be done and improved together, but the choice will have to be made a point to focus on one or the other. Choosing either path is viable, but switching later on is not easy to do.

A common trade off in society is efficiency vs. equality. Efficiency prioritises the maximisation of resources while equality prioritises the split of resources amongst it's members.

Opportunity cost

This stems from trade offs. Decisions require careful calculation of comparing costs and finding the benefits of alternatives. The opportunity cost is the given up resources or capital to acquire a particular item. An example in the book is a student going to college. The student gains intellectual nourishment, better job opportunities and a good peer network. The costs for this example are not only considering the monetary costs but also the time spent.

college tuition is a major factor, but even the costs of living, laundry, food and travel should be included. The major non-monetary unconsidered resource is a students time.

Rational People Think at Margin

Rational people are defined as people who purposefully do the best they can to achieve their objectives. Margin is mentioned as an incremental gain or loss. This principle accounts for decision makers to consider the incremental gain or loss from any particular decision they make. An example is a pay per minute phone. The decision maker weighs the benefits that the phone call will have per minute vs. not taking the call. Taking the call allows for monetary loss but a potential marginal information gain. Not taking the call has no cost but a potential loss of informational gain.

People Respond to Incentives

An incentive is either the potential for a reward or the potential for punishment. Rational decision makers are expected to respond to incentives, either to avoid punishment or gain from a reward. Incentives play a key role in markets and allow for easy market studies. An example is gasolene prices. Higher prices would make people live closer to their jobs, take public transportation or carpool often. This in turn allow to help the environment. People must be incentivized to take any indirect or non-monetary benefitting actions. Another example is mandatory seat belt laws. The incentive was punishment in the form of a fine or detainment. This reduced the number of speed related deaths, although they gave rise to an increase in accidents.

Trade can make Everyone Better off

A common misconception in competition is that one side loses and another wins. In trade, this is not true. Trade allows to create communities where parties can specialise in particular resources or products. An example to illustrate the importance of trade is in college students in a project. Each member of a group can specialise in certain aspects of the project while together, but must do everything independently if alone. Allowing competition in the market enables students to select the best partners - people who can do their jobs well and fast. In the larger picture, competitors are also partners, allowing for better products and better prices.

Markets as an Economic Activity organiser

Markets offer a decentralised exchange for households to plan and make decisions. With a large number of firms and households, markets are a means for individual parties to allocate resources. The common comparison is between socialism and markets (capitalisation). Socialism offers societal benefits and welfare, where the government manages scarce resources. While capitalism favours individual welfare, where each party of individuals must take care of their own welfare. In a decentralised market, there is only one main factor when buying or selling goods - the price. This is not true in a centrallised market, where the government also has a veto say on prices.

Governments can Improve Markets

While markets themselves are decentrallised, the government plays a vital role in sustaining them and enforce regulations. An example of government enforcing regulations is property rights. Once an individual buy and owns property, there has to be something that binds them to that property, in this place, the government and legal systems play a role. Farmers would not grow crops on fields they do not own, restaurants would not sell and make food in a place they do not own. Reliance on the government to enforce defaulting on payments and include punishments is vital for resources to be sold effectively.

Standard of Living and Production of Goods and Services

A country's standard of living and its ability to produce goods and services are directly tied. The per unit of labour for the production of goods and services, aka. the productivity, can determine a country's growth and living standard. An example of comparison is between the United States and Mexico. The differences really show in the average salary and living standard. The steady slowdown is sometimes misinterpreted as foreign competition, while it really is just a decrease in productivity domestically. This relationship also has an impact on public policy. To improve living standards, public policies need to improve productivity. This can be done by improving education, technology and tools.

Prices Rise when Governments Print Excess Money

The quantity of money is inversely proportional to its value. The common name for it is inflation. As a government prints more money, the amount distributed is almost in the same proportion to all citizens, making more higher prices of goods and services. For a short while, certain people may have more money than they originally had, but as the market stabilises, prices only rise. A famous example of this is in Germany post world war 1. A newspaper in 1921 costed 0.3 marks, but costed 70 000 000 marks around 2 years later. Other prices in the German economy rose similar amounts. Low inflation rates is one of the primary goals of any economic policy makers.

Inflation vs. Unemployment

In the short run, inflation leads to higher employment due to the availability of more money, but it not being equally distributed. In the long run, as money slowly gets equally distributed relatively, inflation causes unemployment. This is due to higher wages, but not enough money to pay them.

In the short run, the effect is clear. More money implies more spending, which implies more demand for goods and services, which makes prices rise, which makes companies hire more, which increases employment.

Rotations in inflation and employment short run cycles happen in business cycles, which are better times at the end of to check economic policies and take corrective measures.