CHAPTER 1 Ten Principles of Economic

- Introduction
  - A household must allocate its scarce resources among its various members, taking into account each member's abilities, efforts, and desires.
  - A society must find some way to decide what jobs will be done and who will done them. Once society has allocated people to various jobs, it must also allocate the goods and services they produce.
  - Economics is the study of how society manages its scarce resources. In most societies, resources are allocated not by an all-powerful dicator but through the combined choices of millions of households and firms.
- How People Make Decisions
  - People Face Trade-offs
    - To get something that we like, we usually have to give up something else that we also like. Making decisions requires trading off one goal against another.
    - Consider a student who must decide how to allocate her most valuable resource--her time.
    - Consider parents deciding how to spend their family income.
    - Society
      - The more a society spends on national defense to protect its shores from foreign aggressors, the less it can spend on consumer goods to raise the standard of living at home. Also important in modern society is the trade-off between a clean environment and a high level of income.
      - Another trade-off society faces is between efficiency and equality. When the government redistributes income from the rich to the poor, it reduce the reward for working hard; as a result, people work less and produce fewer goods and services.
  - The Cost of Something Is What you Give Up to Get It
    - Go to college
      - Even if you quit school, you need a place to sleep and food to eat.
      - Don't ignore the large cost of going to college--your time.
      - Opportunity cost: When making any decision, decision makers should aware of the opportunity costs that accompany each possible action.
  - Rational People Think at the Margin
    - Economists normally assume that people are rational. Rational people systematically and purposefully do the best they can to achieve their objectives, given the available oppotunities.
    - Economists use the term marginal change to describe a small incremental adjustment to an existing plan of action. Rational people often make decisions by comparing marginal benefits and marginal costs.
  - People Respond to Incentives
    - Rational people make decisions by comparing costs and benefits, they respond to incentives.
    - The influence of prices on the behavior of sonsumers and producers is crucial to how a market economy allocates scarce resources.
    - Public policymarkers should never forget about incentives: Many policies change the costs or benefits that people face and, as a result, alter their behavior.
      - When a person wears a seat belt, the probability of surviving an auto accident rises. But that's not the end of the sotry because the law also affects behavior by altering incentives. Seat belts reduce the benefits of slow and careful driving.
      - According to Peltzman's evidence, these laws give rise to fewer deaths per accident but also to more accidents. He concluded that the net result is little change in the number of driver deaths and an increase in the number of pedestrian deaths.
      - When analyzing any policy, we must consider not only the direct effects but also the less obvious indirect effects that work through incentives. If the policy changes incentives, it will cause people to alter their behavior.
- How People Interact
  - Trade Can Make Everyone Better Off
    - Trade allows each person to specialize in the activities she does best, whether it is farming, sewing, or home building. By trading with others, people can buy a greater variety of goods and services at lower cost.
    - Like families, countries also benefit from the ability to trade with one another.
  - Markets Are Usually a Good Way to Organize Economic Activity
    - Most countries that once had centrally planned economies have abandoned the system and are instead developing market economies. In a market economy, the decisions of central planner are replced by the decisions of milloins of firms and houholds.
    - Yet despite decentralized decision making and self-interested decision makers, market economies have proven remarkable successful in organizing economic activity to promote overall economic well-being.
    - In any market, buyer look at the price when determining how much to demand, and sellers look at the price when deciding how much to supply. As a result of the decisions that buyers and sellers make, market prices reflect both the value of a good to society and the cost to society of making the good. Smith's great insight was that prices adjust to guide these individual buyers ans sellers to reach outcomes that, in many cases maximize the well-being of society of cociety as a whole.
    - In communist countries, prices were not determined in the marketplace but were dictated by central planners. These planners lacked the necessary information about consumers' tastes and producers' costs, which in a market economy is reflected in prices.
  - FYI: Adam Simth and the Invisible Hand
  - CASE STUDY: Adam Simth Would Have Loved Uber
  - Governments Can Sometimes Improve Market Outcomes
    - The invisible hand can work its magic only if the government enforces the rules and maintains the institutions that are key to a market economy. Most important, market economies need institutions to enforce **property rights** so individuals can own and control scarce resources.
    - Government intervention
      - Economists use the term market failure to refer to a situation in which the market on its own fails to produce an efficient allocation of resources. As we will see, one possible cause of market failure is an externality, which is the impact of one person's actions on the well-being of a bystander. The classic example of an externality is pollution. When the production of a good pollution the air and creates health problems for those who live near the factories, the market left to its own devices may fail to take this cost into account. Another possible cause of market failure is **market power**, which refers to the ability of a single person on firm(or a small group) to unduly influence market prices.
      - The invisible hand does not ensure that everyone has sufficient food, decent clothing, and adequate healthcare. This inequality may, depending on one's political philosphy, call for government intervention. In practice, many public policies, such as the income tax and the welfare system, aim to achieve a more equal distribution of economic well-being.
      - To say that the government can improve on market outcomes does not mean that it always will.
- How the Economy as a Whole Works
  - A Country's Standard of Living Depends on Its Ability to Ptoduce Goods and Services
    - What explains these large differences in living standards among countries and over time? Almost all variation in living standards is attributable to differences in countries' productiveity--that is, the amount of goods and services produced by each unit of labor input. Similarly, the growth rate of a nation's productivity determines the growth rate of its average income.
    - When thinking about how any policy will affect living standards, the key questions is how it will affect our ability to produce goods and services.
  - Prices Rise When the Government Prints Too Much Money
    - Because high inflation imposes various costs on society, keeping inflation at a low level is a goal of economics policymakers around the world.
    - In almost all cases of large or persistent inflation, the culprit is growth in the quantity of money. When a goverment creates large quantities of the nation's money, the value of the money falls.
  - Society Faces a Short-Run Trade-off between Inflation and Unemployment
    - Most economists describe the short-run effects of monetary injections as follows:
      - Increasing the amount of money in the economy stimulates the overall level of spending and thus the demand for goods and services.
      - Higher demand may over time cause firmes to raise their prices, but in the meantime, it also encourages them to hire more workers and produce a larger quantity of goods and services.
      - More hiring means lower unemployment.
    - Policymakers can exploit the short-run trade-off between inflation and unemployment using various policy instruments. By changing the amount that the goverment spends, the amount it taxes, and the amount of money it prints, policymakers can influence the overall demand for goods and services. Changes in demand in turn influence the combination of inflation and unemployment that the economy experiences in the short time.