UBC Wiki

10 Principles of Economics

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Gregory Mankiw, in his text ***Principles of Economics***, describes 10 principles of Economics[1], which are summarized below:

1. **People Face Tradeoffs**
   - To get one thing, we usually have to give up something else
     - Ex. Leisure time vs. work
2. **The Cost of Something is What You Give Up to Get It**
   - Opportunity cost is the second best alternative foregone.
     - Ex. The opportunity cost of going to college is the money you could have earned if you used that time to work.
3. **Rational People Think at the Margin**
   - Marginal changes are small, incremental changes to an existing plan of action
     - Ex. Deciding to produce one more pencil or not
   - People will only take action of the marginal benefit exceed the marginal cost
4. **People Respond to Incentives**
   - Incentive is something that causes a person to act. Because people use cost and benefit analysis, they also respond to incentives
     - Ex. Higher taxes on cigarettes to prevent smoking
5. **Trade Can Make Everyone Better Off**

- Trade allows countries to specialize according to their comparative advantages and to enjoy a greater variety of goods and services

6. **Markets Are Usually a Good Way to Organize Economic Activity**
   - Adam Smith made the observation that when households and firms interact in markets guided by the invisible hand, they will produce the most surpluses for the economy
7. **Governments Can Sometimes Improve Economic Outcomes**
   - Market failures occur when the market fails to allocate resources efficiently. Governments can step in and intervene in order to promote efficiency and equity.
8. **The Standard of Living Depends on a Country's Production**
   - The more goods and services produced in a country, the higher the standard of living. As people consume a larger quantity of goods and services, their standard of living will increase
9. **Prices Rise When the Government Prints Too Much Money**
   - When too much money is floating in the economy, there will be higher demand for goods and services. This will cause firms to increase their price in the long run causing inflation.
10. **Society Faces a Short-Run Tradeoff Between Inflation and Unemployment**
    - In the short run, when prices increase, suppliers will want to increase their production of goods and services. In order to achieve this, they need to hire more workers to produce those goods and services. More hiring means lower unemployment while there is still inflation. However, this is not the case in the long-run.

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References

1. Mankiw, N. Gregory. *Principles of economics (https://www.worldcat.org/oclc/884664951)*. Stamford, CT. ISBN 978-1-285-16587-5. OCLC 884664951.