

5 Abstraction in Economic theories and models
- Economic theories and models abstract from reality by simplifying complex interactions and focusing on specific variables while ignoring others that may also play a role. For instance, many models assume perfect information, rational behavior, or constant preferences, which do not hold true in all real-world scenarios.

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1. what is the Purpose of an economic model

✓ An economic model is a simplifical way of expressing how some sector of the economy functions.

Economic models serve to simplify complex economic realities to better understand, analyze, and predict economic behavior and outcomes.

They provide a framework for testing hypotheses, evaluating policies.

2- Marginal analysis and Rational Behavior:

Marginal analysis involves examining the additional benefits and costs associated with a decision. It helps explain rational behavior by suggesting that individuals make choices by comparing the marginal benefits of an action to its marginal costs.

3. Example of a Behavioral Assumption

A common behavioral assumption in economic models is that individuals act in their own self-interest. For example, the assumption that consumers seek to maximize their utility when choosing between different goods is foundational in many models.

Purpose of using Behavioral

Assumptions: Behavioral assumptions help simplify the analysis by providing a consistent framework for understanding decision making processes.

4. Rationality of Habitual Decision Making

A person who makes decisions by habit and does not consider the benefits or costs of their actions cannot be considered fully rational in the economic sense. Rationality in economics implies that individuals make decisions based on an assessment of available information, weighing benefits.