Economic way of Reasoning: Models and Marginal Analysis:

1. Purpose of Economic Analysis

. Understand how the economy functions and how people make choices under constraints.

. Behavior is often predictable individuals and firms act to maximize satisfactions or profit.

2. Marginal Analysis

. Decisions are based on comparing extra benefits and extra costs of an activity.

. If marginal benefits > marginal costs it's rational to do more of that activity.

3. Theories and Models: Th

. Theories simplify reality to identify cause-and effects relationships.

. Economic models use assumptions about behavior

. Models are abstract, they ignore some real world details to ~~hi~~ highlight key forces

(4) Certeris Paribus

. Analysis often assumes "other things being equal" to isolate the effects of one variable.

5) Rational Behavior

. People act in their self-interest choosing options that provide the greatest benefit relative to cost.

, respiratory system.

Opportunity cost (value of the next best alternative

is central to decision-making

6. Economic Variables

Quantities or values that can change and are explained by economic models.