Aishwarya.B.G
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- The economic way of reasoning helps understand the functions of the economy and the choices people make under constraints.
- Economists often assume people systematically pursue certain objectives like seeking greatest satisfaction or highest profit.
- Marginal analysis is a method to study decision-making based on comparing extra benefits to extra costs.
- Economic models are simplified ways to express how parts of the economy function, using assumptions, logic, graphs, or math to predict outcomes.
- These models are abstract and don't capture all influences on behavior but help unveil cause & effect relationships.
- It talks about constructing a theory on the relationship b/n population growth and apartment rents in a city, hypothesizing that increased population growth leads to higher rents (ceteris paribus).
- It highlights the importance of behavioral assumptions in economic models, like firms maximizing profits and consumers seeking maximum satisfaction.
- It explains rational behavior as choosing actions where extra benefits exceed extra costs, considering the cost of an action as the sacrifice of an alternative oppurtunity due to scarcity.

- An example is given about choosing between acting in a play or training for a cross-country squad when both are scheduled at the same time, deciding based on pursuing self-interest for the greatest.