* Economic way of Reasoning [19/9/25]

*- **Purpose of Economic analysis:**

- Understand how the economy functions.
- Explain the choices people make under constraints
- Predict behaviour based on systematic pursuit of objectives (eg. satisfaction, profit)

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*- **Marginal analysis:**

- Decision-making method.
- Gain from more activity if extra benefits > extra costs
- Focus on incremental changes.

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*- **Theory & Models:**

- Theory: Framework to explain cause & effect relationships
- Simplifies real world complexity.
- Economic model: Simplified representation of how part of the economy works.
- Uses assumptions, logic, graphs / maths to predict changes.

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*- Assumptions in Models:

- Ceteris Paribus: "All other things being equal".
- Isolates one variable to study its effect.
- Behavioural assump^n:
  - Firm aim to maximize profit
  - Consumers seek maximum satisfaction.

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*- Rational behaviour:

- People act to gain when benefit > cost
- Cost = value of sacrificed alternative (opportunity cost)
- eg. Choosing drama over sports based on personal preferance.

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* Key Terms:

- Economic Variable: Something that can change. (price, unemployment)
- Abstraction: Models ignore some real-world details to clarify cause & effect.

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