Kashish Chaudhary - 252

Q! what is the purpose of an economic model?

Ans An economic model is like a simple map. its purpose is to simplify a complex real-world economic situation so we can understand it Example it, and make predictions about it. Just like a map doesn't show every single tree or house, a model focuses only to the most important part of a problem.

② How can marginal analysis be used to explain rational Behaviour?

Ans Marginal analysis means thinking about a little bit more or a little bit less of something. Rational Behaviour means people make decisions by comparing the benefit and costs.

• Example- imagine you are eating slices of pizza. The first slice gives you a Benifit. The second slice is also good. But by the third or forth slice the Extra Benefit of eating one more slice gets smaller. if you rational you will stop eating when the margional Benefit of the next slice is less than the margional cost (like feeling too full or the price of the slices). marginal analysis Explains that rational people make decisions by comparing the extra Benefit to the extra cost.

(3) give an example of a Behavioural assumptions in an economic model what is the purpose of using behavioural assumptions in economic models?

Ans example- A common behavioral assumption is that people generally try to make themselves as happy as possible with the money they have

- purpose - The purpose of using behavioral assumptions is to give the model a starting point for how people will act. it's like setting the rules for a board game. By assuming how people will Behave, economists can Build a model that predicts what might happen next such as how a change in price will effect how much people Buy.

(4) A person make decisions by habit. this person considers neithers the benefi nor the costs of his or her actions. can the person be considered ration

Ans according to the standard econom definition of rationality. this person would not be considered rational Rational Behaviour required conscious comparison. However, sometimes a habit was rational when it started and it saves you the time and efforts of thinking about the decision every single time.

(5) In what ways do economic theories and models abstract from reality? Why are unrealistic models useful?

Ans:
- Leaving out details - a model about the car market might ignore the color of the cars.

- Simplifying motivations - it might assume all people only care about price, when in reality, they might also care about brand loyalty or the environment.

- Holding things constant - a model might study the effect of income on spending by assuming that people's tastes and preferences don't change.

-) Why they are useful - unrealistic models are useful for the same reason a simple map is useful.

- They make problems manageable - Trying to include every single detail.

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