Summary

The economic way of reasoning helps us understand how people make choices under scarcity. Economists assume that people behave predictably, seeking maximum satisfaction (consumers) or profit (producers).

A key tool is marginal analysis—decisions are rational if the extra benefit of an action is greater than its extra cost.

Economists build theories and models to explain cause-and-effect relationships. Models are simplified representations of reality, based on assumptions about human behavior, such as consumers maximizing satisfaction or businesses maximizing profit. These assumptions, though not fully realistic, allow economists to analyze variables like prices, production, employment, and investment.

The principle of ceteris paribus ("other things being equal") is used to isolate the effect of one variable at a time. For example, population growth may raise apartment rents if other factors remain constant.

Scarcity means every choice involves a trade-off. The cost of an action is the value of the next best alternative forgone (opportunity cost). Rational behavior means pursuing personal well-being by making the best use of limited resources.