Summary of Economic way of Reasoning: Models & Marginal Analysis

This lesson introduces the core methods economists use to analyse behavior and decision-making

. Goal of Economics: to understand how people make choices under constraints and to identify the forces that influence the economy

. Theories & Models: Economists use theories (frameworks for cause and effect) and models (simplified representation of the economy) to explain complex realities. These models are based assumptions and are abstract by design to focus on the most important relationships.

. Key Assumptions: Models rely on behavioral assumptions, primarily that:

. Businesses aim to maximize profit.

. Consumers seek to maximize satisfaction (utility)

These assumptions allow economists to predict how changes in economic variables (like price or wages) affect behavior

. Ceteris Paribus: This latin phrase meaning "Other thing being equal" is crucial. It means economists isolate the effect of one variable by holding all other influencing factors constant.

. Marginal Analysis: This is a fundamental tool for decision-making. It states that an activity should be increased if the extra (marginal) benefits outweigh the extra (marginal) costs.

. Rational Behavior: individuals engage in rational behavior when they pursue their self-interest by trying to get the greatest possible well-being from their limited resources. Every choice has an opportunity cost - the value of the next best alternative you must give up