The economic way of Reasoning

The primary goal of economic analysis is to undrestand how the economy functions and the forces that guide the choices individuals make under constraints. A key assumption is that humen behavior is predictable, as people systematically pursue objectives like maximizing satisfaction or profit. Economists use two main tools for analysis:

1) Marginal analysis: this is the idea that you should engage in more of an activity if the additional (marginal) benefits outweigh the addidional costs.

2) Economic Models: These are simplified frameworks built on assumptions to establish cause-and-effect relationships between economic variables (quantities that can change, like price or employment). Models use logic, graphs, or math to predict how changes in conditions will affect decisions and outcomes. They are abstract by design, focusing on key influences to clearly reveal fundamental forces, even if this means simplifying complex motivations (assuming firms only maximize profit)

A crucial concept for testing theories within models is ceteris paribus which allows economists to isolate the effect of one variable by holding all others constant.

The models rely on behavioral assumptions about how people act, typically that:

Firms: seek to maximize profit.

Consumers seek to maximize satisfaction.

This leads to the concept of rational behavior: individuals make decisions to gain the greatest possible well-being from their resources. They subjectively evaluate an actions benefit against its cost, which is defined as the value of the next-best alternative that must be sacrificed.

Scarcity means that every benefit comes at the cost of forgoing something else.