topic 2

Economics helps us undrestand how the economy works and how people make choices under constrains. its based on the idea that our behavior is predictable and that we systematicly pursur objectives like getting the most satisfaction from a purchase or the highest profit form a sale.

Economies use theories to undrestand cause and effect relationships. A theory is a simplified framework that helps explain why certain phenomena occur.

An economic model is simplified way to show how a part of the economy functions. model's contain assumptions that establish relationships along economic variables - quantities or dollar amounts that can have more than 1 value, like price or the number of unemployed workers. models are abstrac and don't try to capture any influence on behavior. their purpose is to use a simplification to more clearly reveal the basic forces on case and effect. A key part of any model is the behavioral assumptions it makes. forexample a modle might assume that business owners wants to maximize profits and that consumers want to ge the most satisfaction from their purchases.

A key tool is marginal analysis, which is based on the idea tha you can gain from an activity if the extra benefits outweight the extra costs. this relates to rational behavior, which means tha you actively pursue your self-interest for get the greatest possible well-being from your resources. because of scarcity, you can only gain a benefit by giving up an alternative opportunity when economists analyze an effect, they use the phrase ceteris paribus (other thing being equal) to acknowledge that all other factors must be controled for.

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