Topic 2 Джамали Резван

The economic way of Reasoning

*Scarcity and choice:

Because resources(time, money, labor) are limited, people must make choices every choices involves a trad_off giving up onthing to get another.

example: choosing to act in a play must means giving up training for cross_ country.

*opportunity cost:

The True cost of any decision is the

value of the next best alternative you give up.

not just monetary cost -includes time, effort, missed opportunities.

* Rational Behavior:

Individuals are assumed to act Rationally - meaning they try to maximize their satisfaction or benefit given their constrains.

. Rational ≠ selfish. It means making desisions that best serve your own evaluated interests.

*Marginal Analysis:

The cornerstone of economic decision-making.

You should do more of something *only if the marginal (extra) benefit > marginal (extra) cost.

- Helps optimize decisions: should I study one more hour? only if the benefit (better grade) outweighs the cost (lost sleep or leisure)

*Economic Models & Theories

- Simplified representation of reality used to explain or predict economic behavior
- Based on assumptions (firms maximize profit, consumers maximize satisfaction)
- use ceteris paribus (all else equal) to isolate the effect of one variable

Example Model: If population grows
→ apartment rents rise (assuming no

new housing is built).

*Economic Variables:

• measurable factors that can change: prices, unemployment, production, wages.

• models show how changes in one variable effect others.

*Economic reasoning helps us:

• Understand individual and market Behavior

• Predict responses to policy changes (taxes, subsidies, regulations)