

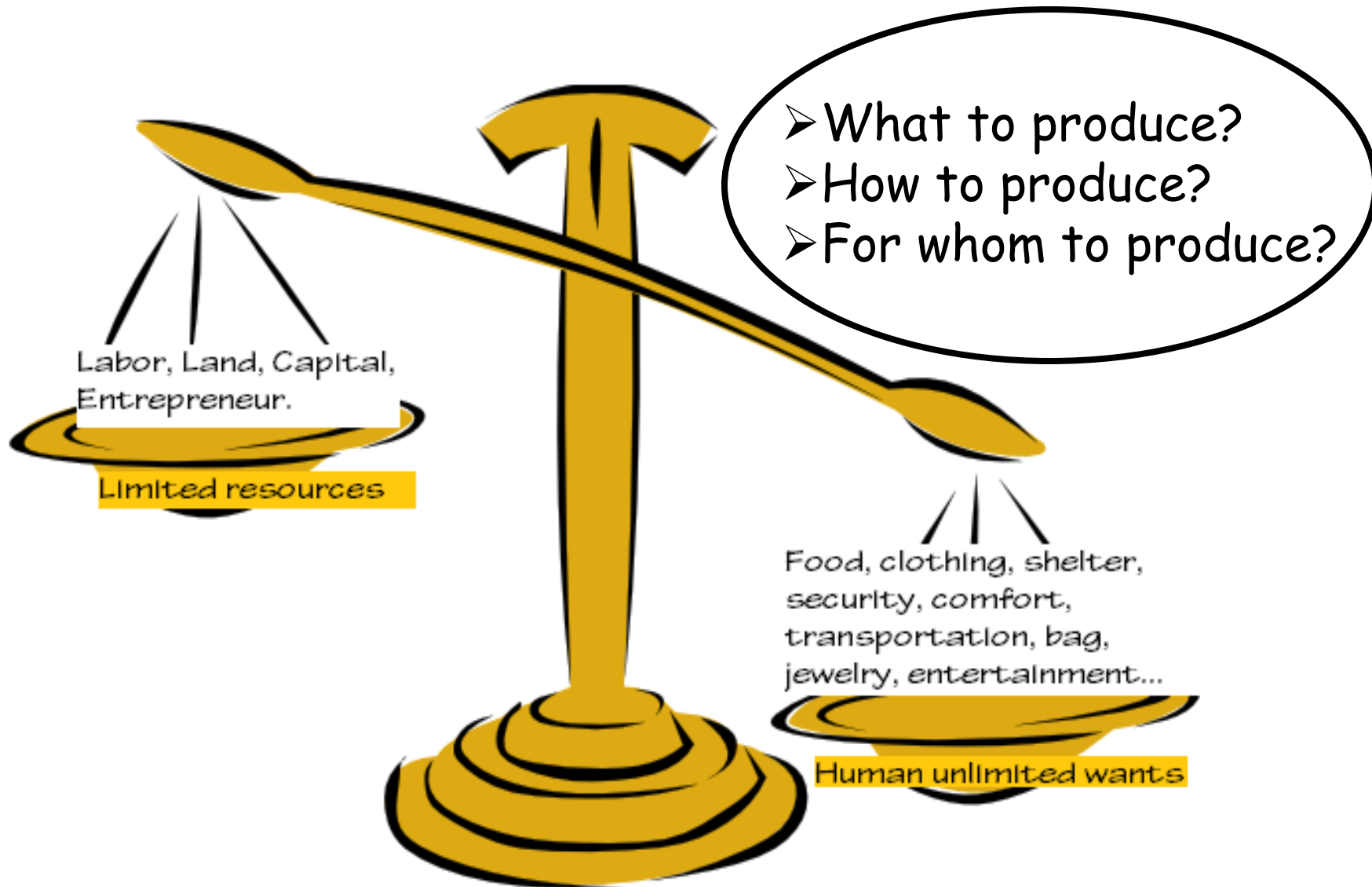
Principles of Economics



→ relating to household management ;
Oikos : house

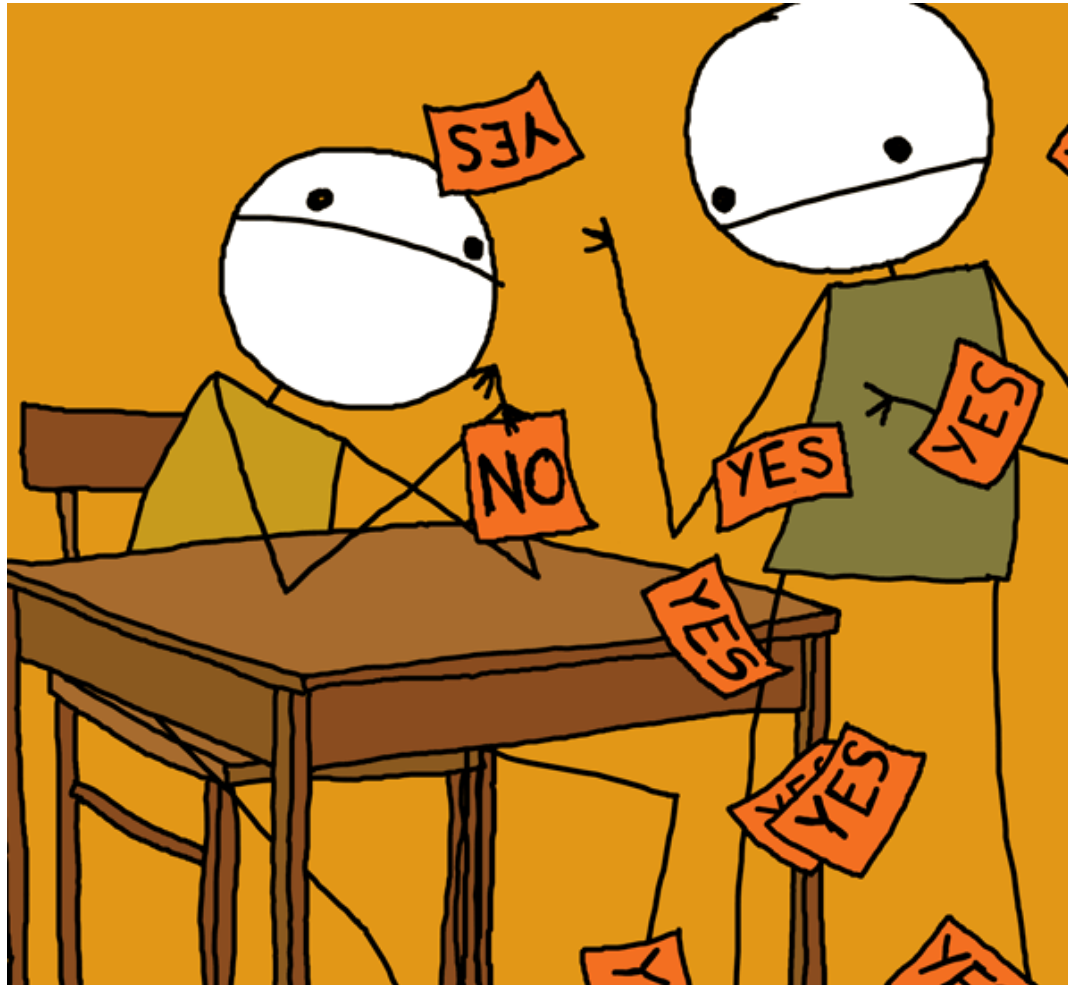
practical necessities.
ec•o•nom•ics (ĕk'ə
The social science th
and consumption of

SCARCITY



CHOICE

HOW PEOPLE MAKE DECISIONS?



Principle 1 : Face TRADE OFFS

There is no such thing as a free lunch



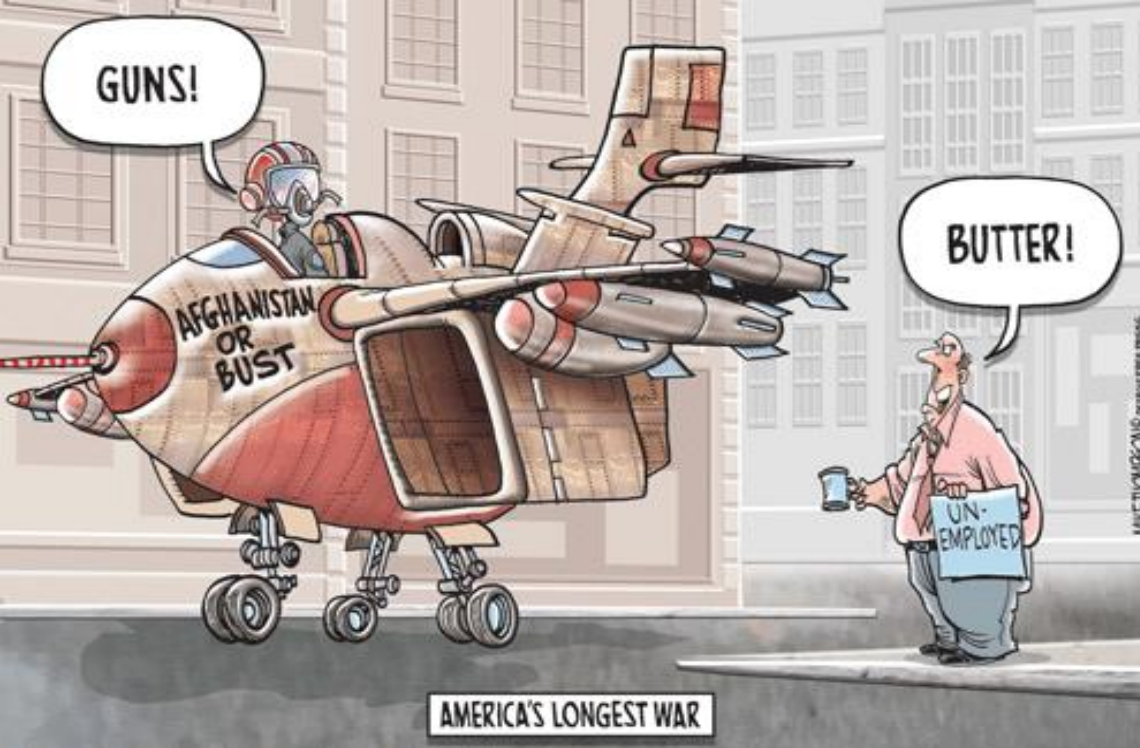
**YOU CAN'T HAVE IT
BOTH WAYS**

TIME



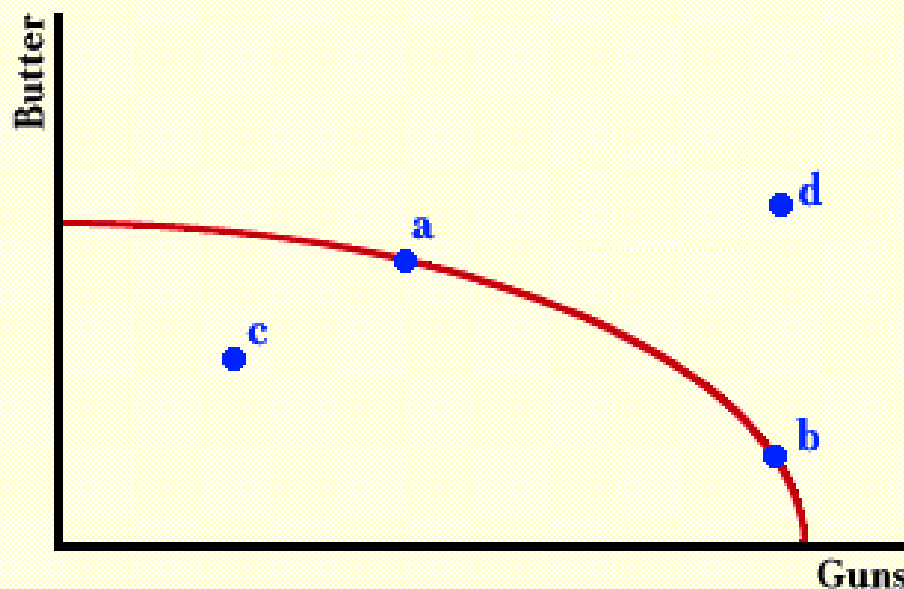
SALARY



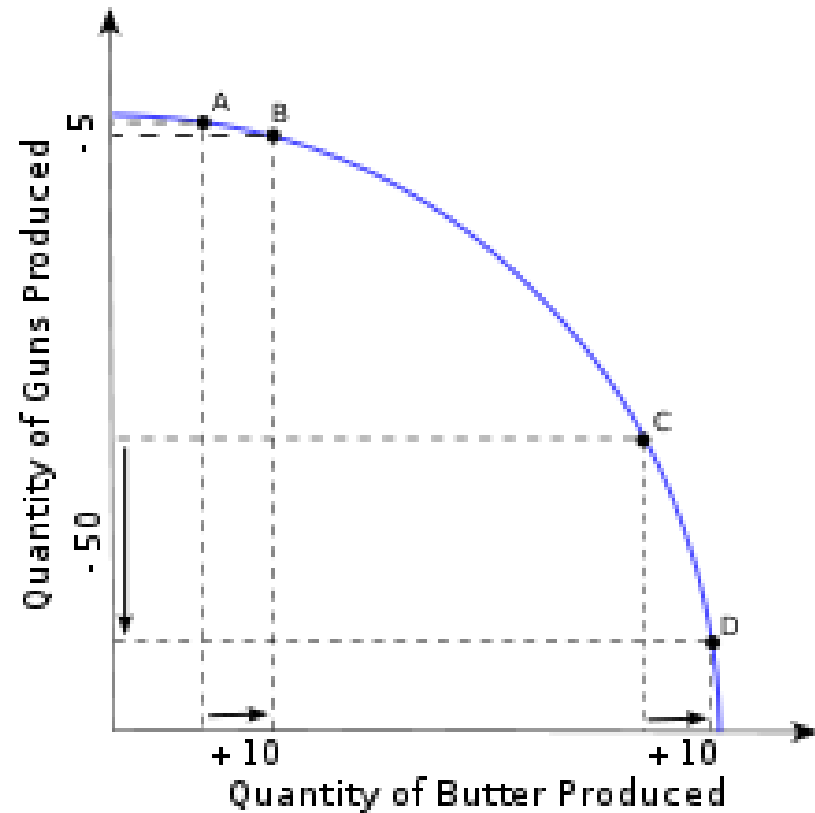
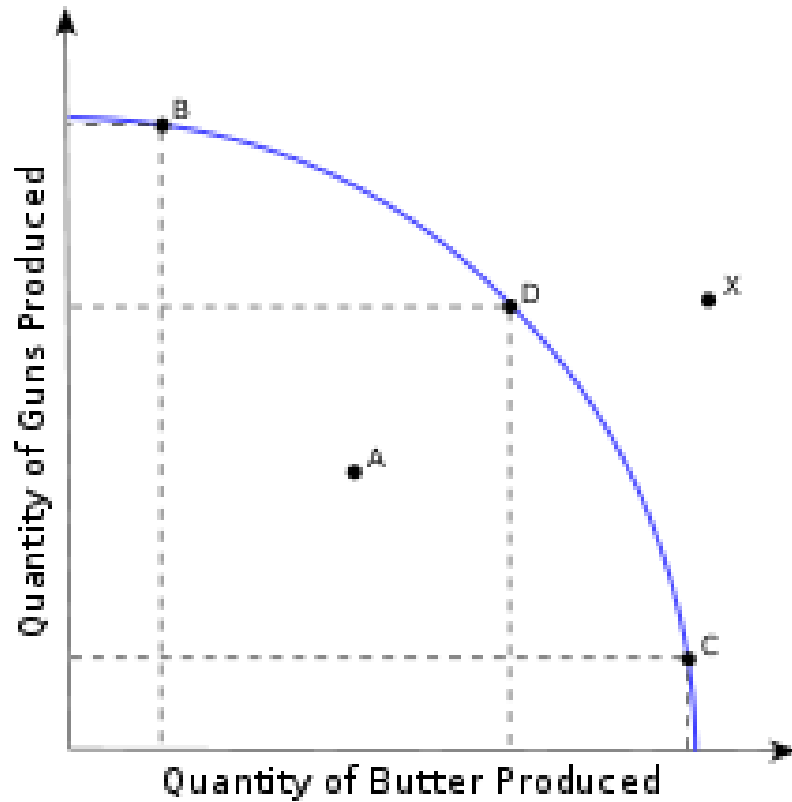


'GUNS' AND 'BUTTER'

More for defense means fewer consumer goods



PRODUCTION POSSIBILITIES FRONTIER

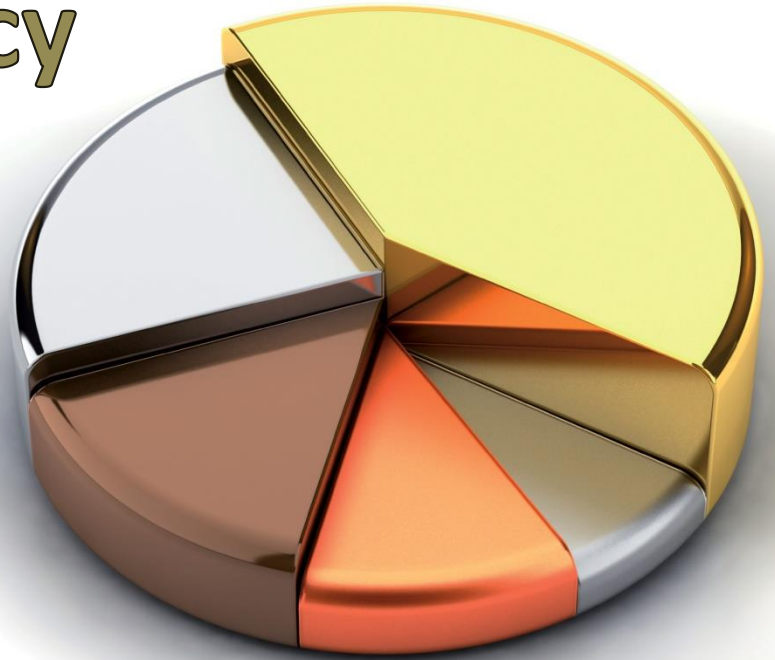


Clean environment – Level of income



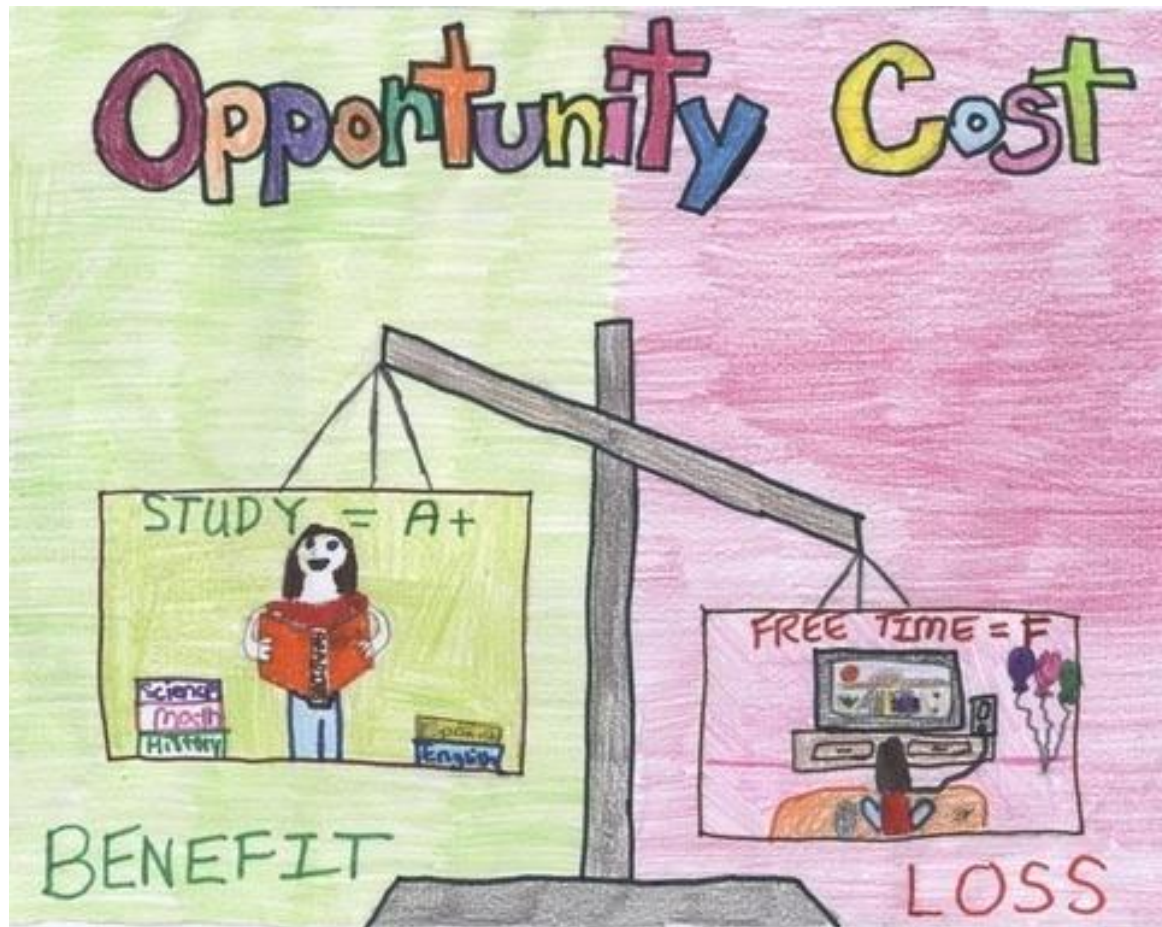
Equity vs Efficiency

- Good decisions are made when options are known.
- Government policy conflict
- Efficiency : No-one can be made better off without making someone else worse off
- Equity : How fair?



Principle 2 : Cost is not only what you see

Every choice has a value



Puzzles
Tennis
Fishing
Running
Reading
Football
Yoga
Computing
Chess
Cricket
Cooking
Swimming
TV
Hockey
Squash
Bowling
Baseball
Travel



my
hobbies





Principle 3 : Rational people think at the margin

Rational Choice in Market

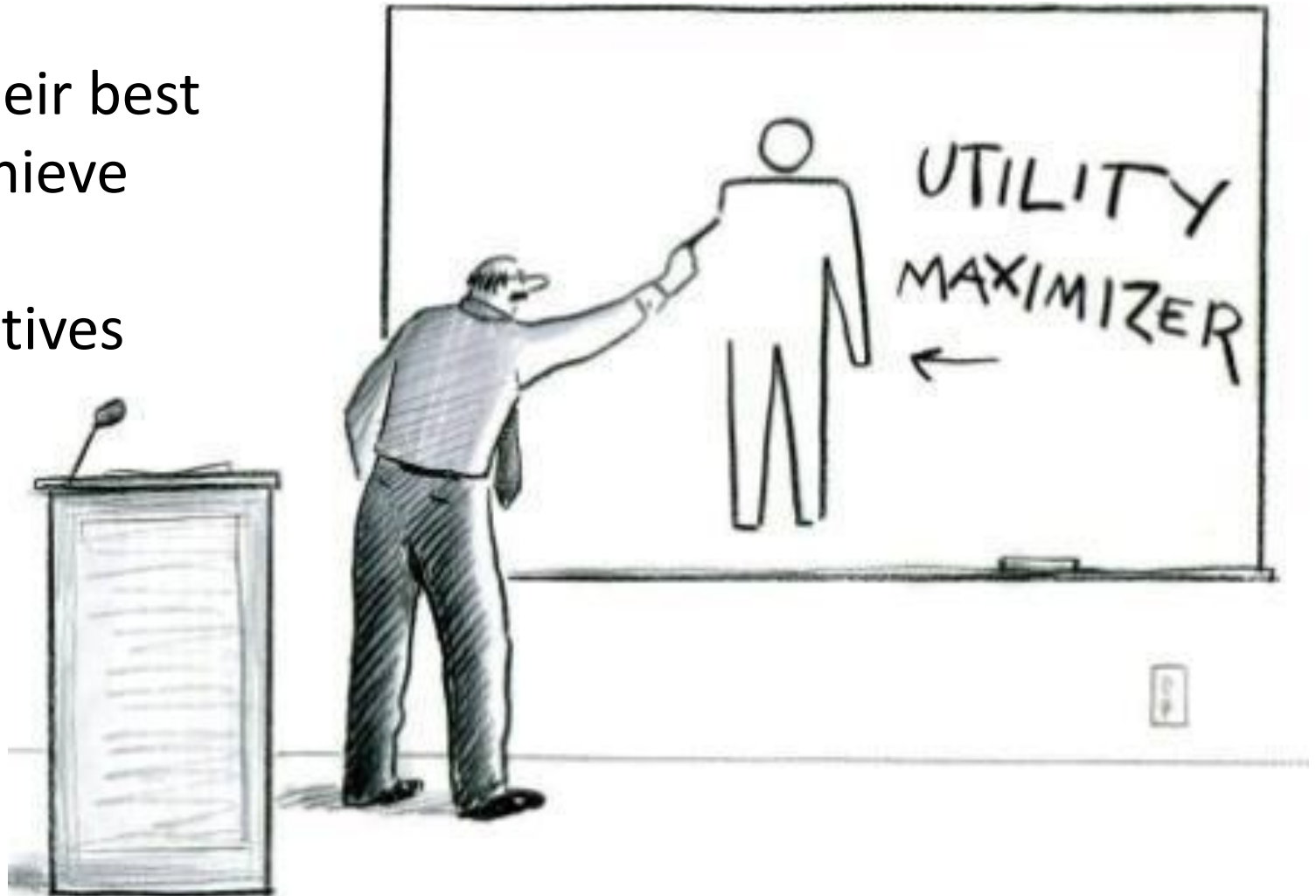
JUST A NORMAL DAY AT THE NATION'S MOST IMPORTANT FINANCIAL INSTITUTION...



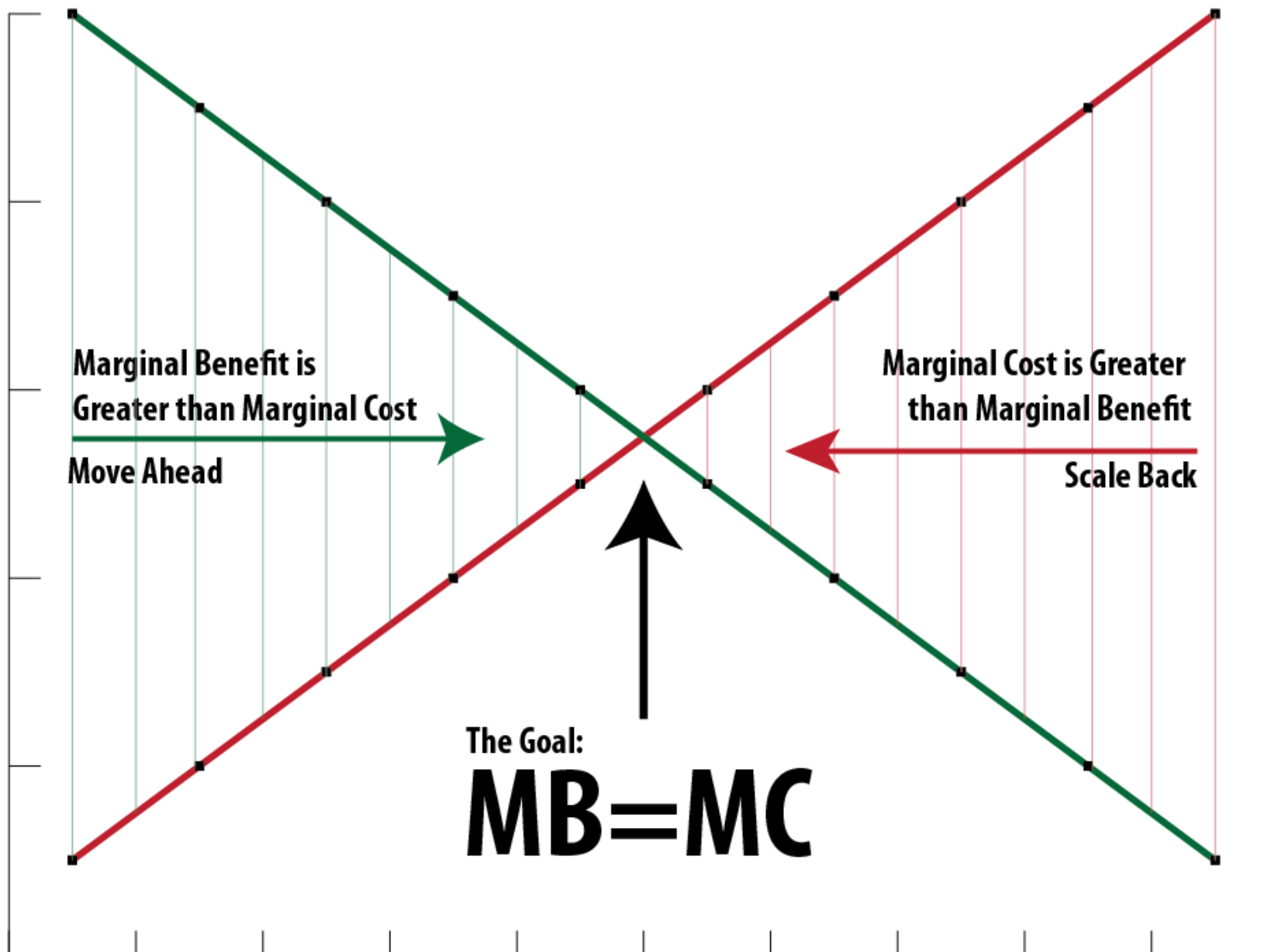
Economic Sociology and Political Economy community

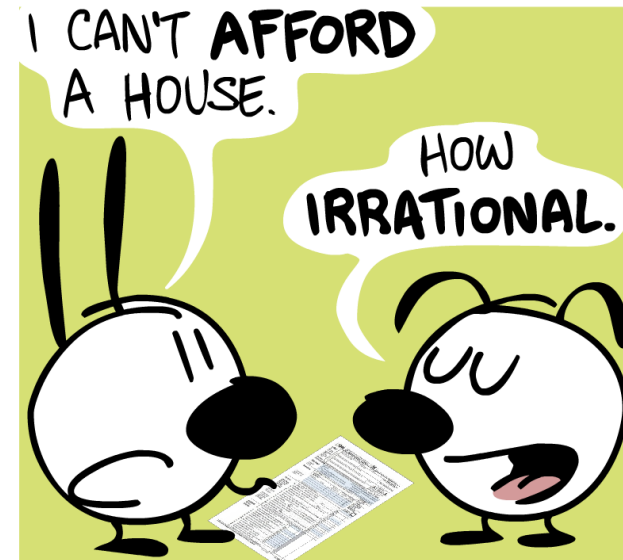
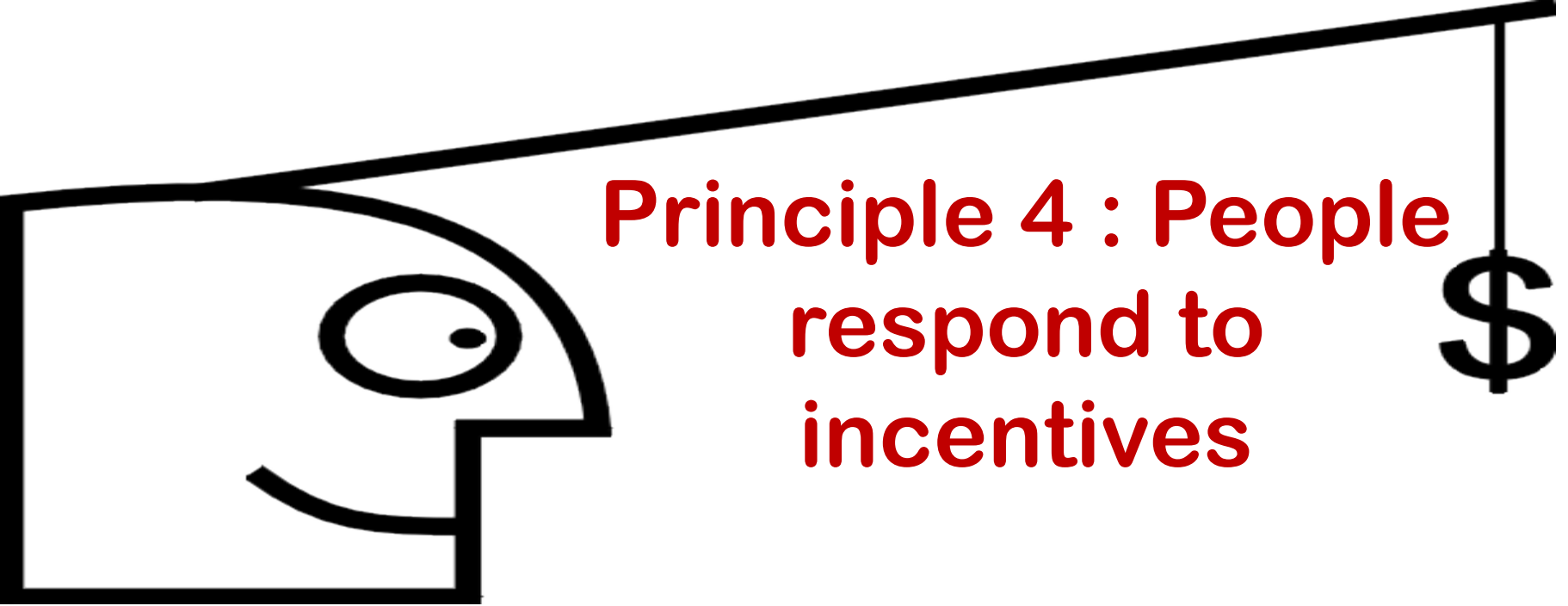
Rationality

Do their best
to achieve
their
objectives



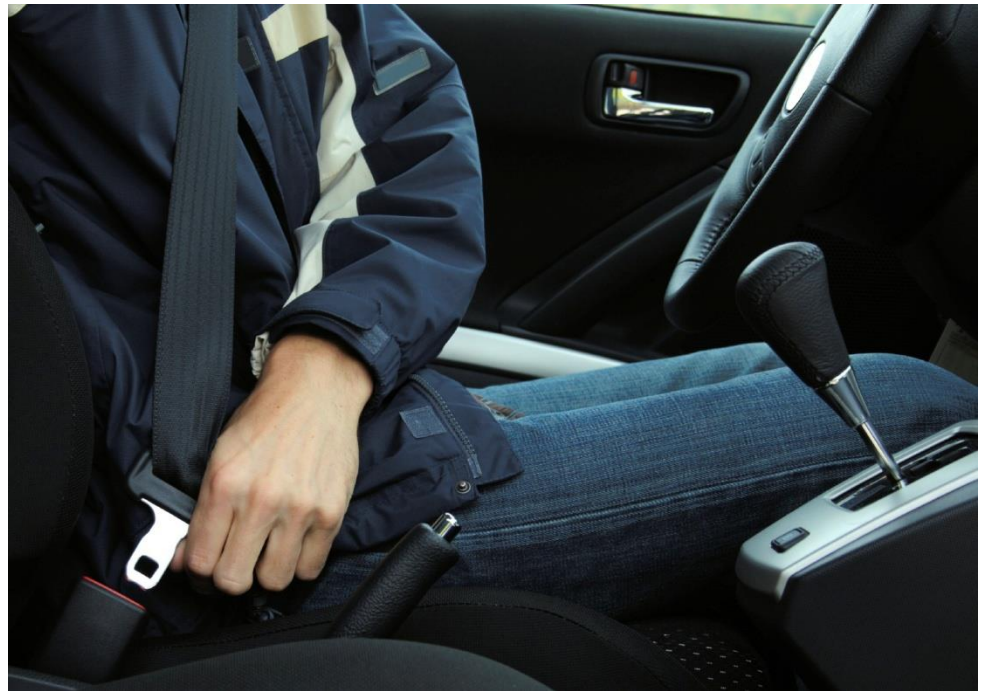






Must know how policy affects incentives

Change in incentives \rightarrow costs/ Benefits change \rightarrow Behaviour changes



[illegible]