Economic Naturalist Examples

Economics and Its Core Principles

Over many years economists have developed some simple principles that are useful for understanding a wide range of situations—from the relatively simple economic decisions that individuals make every day to the workings of highly complex markets, such as international financial markets. These principles have their origins in microeconomics but they find wide application even in macroeconomics. Our basic economic problem is that we have boundless needs and wants, but the resources available to meet them are limited so having more of one good thing usually means having less of another. Whenever we must choose among alternatives, we confront the problem of scarcity. A major objective of this book is to help students to learn economic principles and how to apply them to solve the basic economic problem.

The Cost–Benefit Principle: An individual (or a firm or a society) will be better off taking an action if, and only if, the extra benefits from taking the action are greater than the extra costs.

From this basic starting point, five other important principles follow:

The Principle of Relevant Costs: In considering whether to produce or consume more of a good, what matters is the cost of one more unit (marginal cost).

The Implication of Comparative Advantage: Total output is largest when each person (or each country) concentrates on the activities for which his or her opportunity cost is lowest.

The Principle of Increasing Opportunity Cost: In expanding the production of any good, first employ those resources with the lowest opportunity cost. Only when all of the lowest cost resources are employed does it make economic sense to use resources that have higher opportunity costs.

The Efficiency Principle: Economic efficiency occurs when total economic surplus is maximized. Efficiency is an important social goal because, when the economic pie grows larger, everyone can potentially have a larger slice.

The Equilibrium Principle: A market in equilibrium leaves no unexploited opportunities for individuals but may not exploit all gains achievable through collective action.