

Exploring Economics

Learning to Think like an Economist

Economics, broadly defined

The Theory of Economics does not furnish a body of settled conclusions immediately applicable to policy. It is a **method** rather than a doctrine, **an apparatus of the mind**, a **technique of thinking** which helps its possessor to draw correct conclusions.

John Maynard Keynes

An Economic Way of Thinking

Social phenomena emerge from the actions and interactions of individuals who are choosing in response to expected, additional benefits and costs to themselves.

Social Phenomena

Natural Phenomena

versus

Conventional or Artificial Phenomena



Social Phenomena cont'd

“The results of **human action**, but **not** of **human design**.”

‘Emergence’ or ‘Spontaneous Order’

Examples?

Fashion, Slang, Money, Prices, Markets, Common law, etc.

Social Order: A bold Claim

Recognizable, intelligible, and dependable **order** is a necessary feature of society and **the most important** thing for social scientists to study.

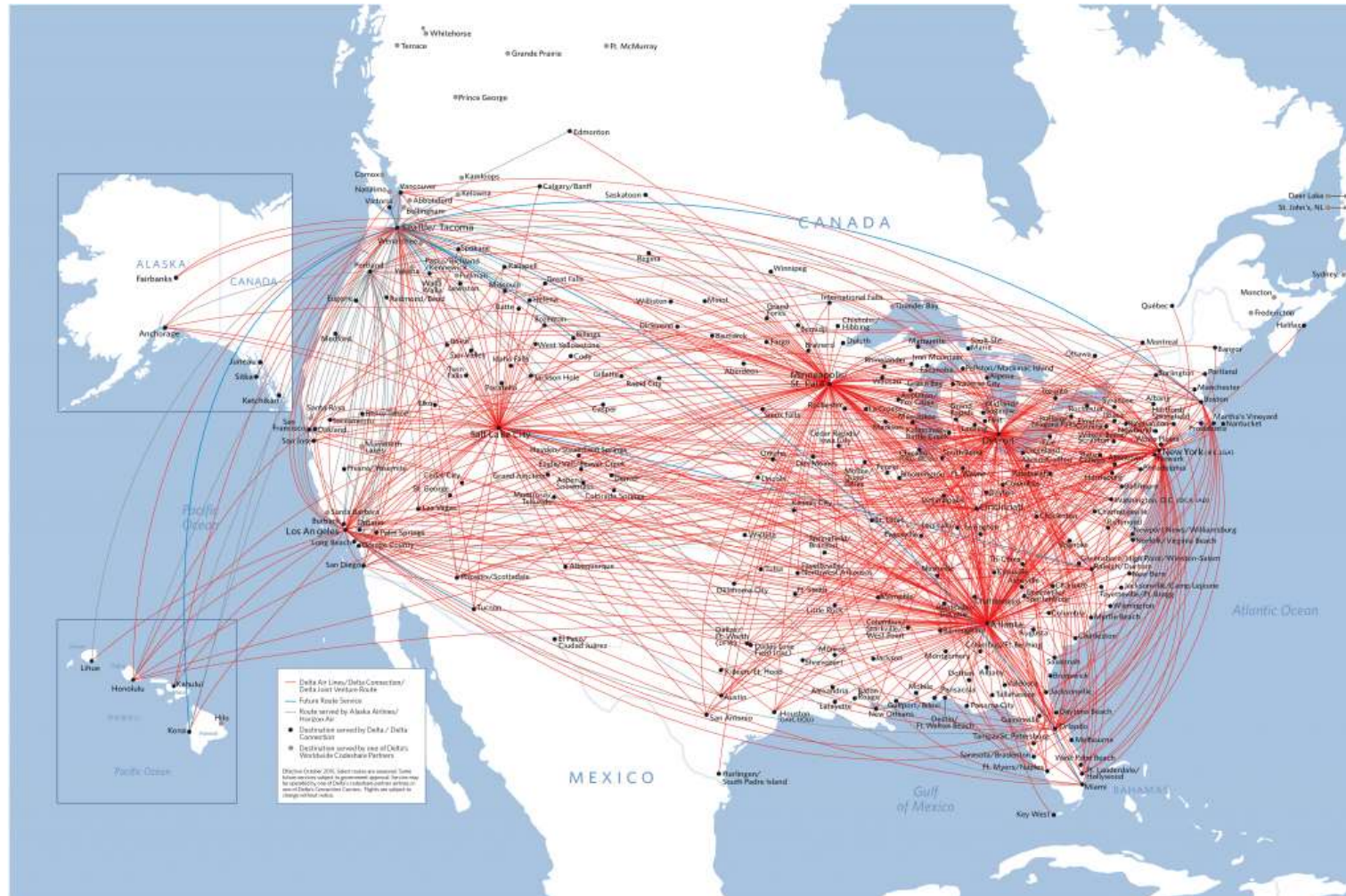
Economics studies social order ***as a consequence of*** the choices people make, and we believe the way they make choices is both understandable and broadly predictable.

Different orders for different purposes



Ground Traffic

Different orders for different purposes



Air Traffic

Back to the Social Science

Social phenomena emerge from peoples' choices interacting.

People make choices based on how they see their options.

The rules of the game (**institutions**) shape how people see their options.

Economics in One Slide

To change an outcome, change the choices. To change the choices, change the perception. To change the perception, change the rules.

Rules → Choices → Outcomes

Rules → **Choices** → Outcomes

The economic way of thinking holds that, when choosing, **individuals** consider expected, additional benefits and costs to themselves

1. Individuals are the ones choosing
2. Choosing is an action
3. Individuals choose among available actions

“... to themselves.”

Subjectivism vs Objectivism: value is in the minds of choosers and the actions they choose, not in the things that make those actions work

‘Selfish’ vs ‘Self-interested’ vs ‘**Interested**’

Means, Ends, and Ideas

“... benefits and costs...”

Not **Good Things** vs **Bad Things** like people often say

Choices are **actions**, and we take actions to get value. The **value we get** is benefit; cost is the flip-side of that coin.

Opportunity cost – the value of the next best alternative action sacrificed to take a certain action

Stay in room (action) or go to class (action)

“... additional...”

Marginal decision making – what is the benefit/cost of *a little more*

Economists always say “**on the margin**” or “**at the margin**”

Context matters and *ceteris paribus* is a must

Diamond/water paradox

“... expected...”

Nobody can see the future

All of our plans are **speculative** at best

Ex ante vs Ex post

Economics

Social phenomena emerge from the actions and interactions of individuals who are choosing in response to expected additional benefits and costs to themselves.

Rules → Choices → Outcomes



Ends, Means, Ideas

Normative and Positive Analysis

Normative analysis asks and answers questions about values.
Should or Ought something be the case?

Positive analysis asks and answers questions about possibilities.
Can or Will something be the case?

“Ought” **implies** “Can”

Any time we try to do Normative analysis, we have to rely on underlying Positive analysis at many points along the way.

Economics focuses on Positive analysis, but doing so makes it invaluable for Normative analysis.

Economics, like most social sciences, is still not very good at Normative analysis!

Normative Policy Analysis

4 steps

1. Statement of value – what is important? We say A is.
2. Success Condition – doing X will achieve value A
3. Optimal Means Condition – X is the best way to achieve A relative to all of the other ways, like Y and Z .
4. Ends Justify the Means Condition – doing X to achieve A is better than not achieving A , given the opportunity costs of the resources used doing X .

An Example

Should UT add more student parking?

1. What is the value being attained?
2. Does parking accomplish this?
3. Are there other means that accomplish this better?
4. If parking is the best means to increase <value>, is it still worth those resources?

Sverrir, málmaðr 🇩🇪 🇩🇪 🇩🇪 and 8 others liked



Tripp @Tjdriii · 8h

just one more lane bro. i promise bro just one more lane and it'll fix everything bro. bro. just one more lane. please just one more. one more lane and we can fix this whole problem bro. bro cmon just give me one more lane i promise bro. bro bro please i just need one more lane t



29

272

1,568

