

The **6** Core Economic Principles



1 People Choose

We always **want** more than we can get and **productive resources** (**human, natural, capital**) are always limited. Therefore, because of this major economic problem of **scarcity**, we usually choose the alternative that provides the most **benefits** with the least **cost**.



2 All Choices Involve Costs

The **opportunity cost** is the next best alternative you give up when you make a **choice**. When we choose one thing, we refuse something else at the same time.



3 People Respond to Incentives in Predictable Ways

Incentives are actions, awards, or rewards that determine the **choices** people make. Incentives can be **positive** or **negative**. When incentives change, people change their behaviors in predictable ways.



4 Economic Systems Influence Individual Choices and Incentives

People cooperate and govern their actions through both written and unwritten **rules** that determine methods of **allocating** scarce **resources**. These **rules** determine **what** is produced, **how** it is produced, and **for whom** it is produced. As the rules change, so do individual **choices**, **incentives**, and behavior.



5 Voluntary Trade Creates Wealth

People **specialize** in the **production** of certain **goods** and **services** because they expect to gain from it. People **trade** what they produce with other people when they think they can gain something from the **exchange**. Some **benefits** of voluntary **trade** include higher **standards of living** and broader choices of **goods** and **services**.



6 The Consequences of Choices Lie in the Future

Economists believe that the **costs** and **benefits** of **decision making** appear in the future, since it is only the future that we can influence. Sometimes our choices can lead to **unintended consequences**.