Mankiw's 10 Principles of Economics

Pronounced like "Man- cue"

3 Categories*

*There are other ways to categorize the principles but this is a good way to start thinking about them.

How people make decisions

*like psychology

How people interact

*like sociology

Forces and trends

1. People face trade-offs

We have to balance efficiency with equity (fairness)

Should I buy a new phone or lease one?

Do I want the government to spend our budget on schools or the military?

2. The cost of something is what you give up to get it

Because we have to make trade-offs - our decisions are based on comparing the costs and benefits of each option

Buying a house means that we don't have as much money to go out...

3. Rational people think at the margin

Is the benefit you gain from doing something worth the effort?

Is going to the gym more frequently going to get you to your fitness goals?

Is eating the cupcake going to ruin them?

4. People respond to incentives

Incentives can be both positive and negative. They can even be positive for negative reasons (and vice versa).

Oh Look: A buy one get one free sale!
But wait. These prices seem higher than normal?!

5. Trade can make everyone better off

This allows for "specialization of products" that can benefit everyone

It can benefit everyone, but it doesn't always. Remember: the island of Manhattan was "purchased with beads."

6. Markets are usually a good way to organize economic activity

You are involved in markets (groups of goods and services) on a daily basis. Most families do not build their own homes, make their own clothes, or grow their own food.

Adam Smith suggested that people are motivated by self-interest, BUT an "invisible hand" guides this self-interest into promoting society's economic well-being.

7. Governments can sometimes improve market outcomes

With the intent of promoting efficiency and equity (fairness)

A market economy rewards people for their ability to produce things that other people are willing to pay for.

8. The standard of living depends on a country's production

Differences in living standards lies in differences in productivity

To boost living standards the policy needs to raise productivity by ensuring that workers are well educated, have the tools needed, and have access to technology.

9. Prices rise when the government prints too much money

When the government creates a large amount of money, the value of money falls

In Germany in November of 1923, a loaf of bread cost 200,000,000,000 marks due to hyperinflation

10. Society faces a short-run trade-off between inflation and unemployment

The short-run effect of injecting/adding money into the economy is lower unemployment and higher prices.

Higher interest rates will reduce consumer spending and investment leading to lower aggregate demand. This fall in aggregate demand will lead to lower inflation.

https://en.wikiversity.org/wiki/10_Principles_of_Economics
C N Trueman "Hyperinflation and Weimar Germany" historylearningsite.co.uk. The History Learning Site, 22 May 2015. 10 Aug 2017.