

# **Guide to Economic Reasoning-Six Key Principles**

## **1. People choose.**

- People make choices even when they don't think they are making a choice. (“no choice”)
- People act rationally to seek the best possible combination of costs and benefits

## **2. People's choices involve costs.**

- Decisions come with costs. Always.
- Obvious when purchasing goods and services.
- Not all costs are dollars cost.

## **3. People respond to incentives in predictable ways.**

- Incentives are rewards that prompt people to make decisions and take action.
- Money is a powerful incentive.
- Doing the right thing is another incentive.

## **4. People create economic systems that influence individual decisions.**

- “Rules of the game” act as incentives and influence the choices people make in particular cases.
- Tax laws can influence behavior.

## **5. People gain when they trade voluntarily.**

- When purchasing a movie ticket, filling car with gas or buying stock these all involve voluntary trade.
- People exchange something they value less for something they value more.

## **6. People's choices have consequences that lie in the future.**

- People give thought to tomorrow as they strive to make decisions.
- People usually take better care of things that they own instead of rent. (car, house)