

Learning Objectives

Chapter 1

In this chapter you will

- Learn that economics is about the allocation of scarce resources
- Examine some of the trade-offs that people face
- Learn the meaning of opportunity cost
- See how to use marginal reasoning when making decisions
- Discuss how incentives affect people's behaviour
- Consider why trade among people or nations can be good for everyone
- Discuss why markets are a good, but not perfect, way to allocate resources
- Learn what determines some trends in the overall economy

You should be able to

- Define scarcity
- Explain the classic trade-off between "guns and butter"
- Add up your particular opportunity cost of attending university
- Compare the marginal costs and marginal benefits of continuing to attend school indefinitely
- Consider how a quadrupling of your tuition payments would affect your decision to educate yourself
- Explain why specialization and trade improve people's choices
- Give an example of an externality
- Explain the source of large and persistent inflation