The 10 Principles of Microeconomics:

1. People face trade-offs
2. The cost of something is what you give up to get it
3. Rational people think at the margin
4. People respond to incentives
5. Trade can make everyone better off
6. Markets are usually a good way to organize economic activity
7. Governments can sometimes improve market outcomes
8. A country's standard of living depends on its ability to produce goods and services
9. Prices rise when the government prints too much money
10. Society faces a short-run tradeoff between Inflation and unemployment.

WHICH ARE THE 10 PRINCIPLES OF MICROECONOMICS?

How People Make Decisions:

People face trade-offs;

"There is no such thing as a free lunch (TINSTAAFL)." Recognizing that trade-offs exist does not indicate what decisions should or will be made;

Significance of opportunity cost in decision making;

When making any decision, decision makers should consider the opportunity costs of each possible;

Rational people think at the margin;

People respond to incentives;

MICROECONOMICS

How People Interact With Each Other:

Trade can make everyone better off;

Markets are usually a good way to organize economic activity;

Many countries that once had centrally planned economies have abandoned this system and are trying to develop market economies.

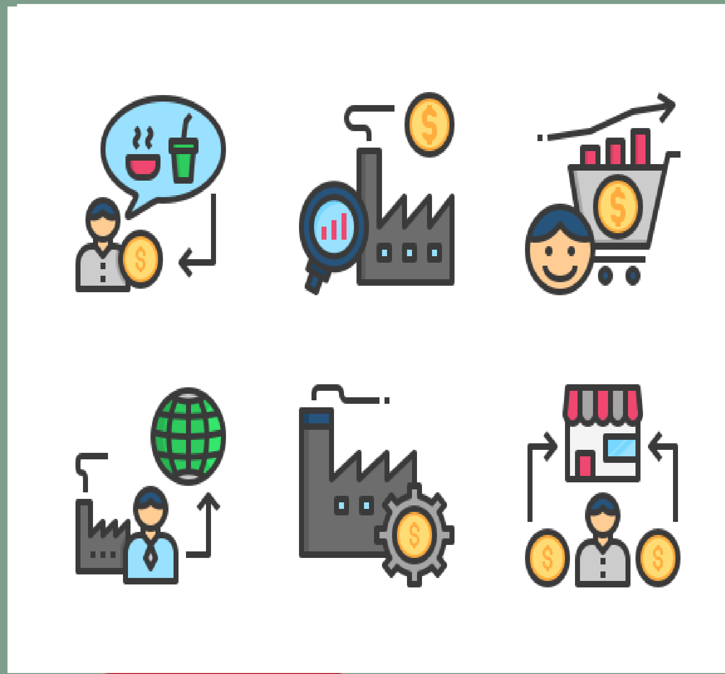
- Definition of **market economy: an economy that allocates resources through the decentralized decisions of many firms and households as they interact in markets for goods and services.**
- Market prices reflect both the value of a product to consumers and the cost of the resources used to produce it.
- Centrally planned economies have failed because they did not allow the market to work.
  - Adam Smith and the Invisible Hand
- Adam Smith's 1776 work suggested that although individuals are motivated by self-interest, an invisible hand guides this self-interest into promoting society's economic well-being.
-

Markets are where the buyers and sellers can meet to get goods and exchange items.

Government can sometimes improve market outcomes;

There are two broad reasons for the government to interfere with the economy: the promotion of efficiency and equality.

- Government policy can be most useful when there is market failure.
- Definition of **market failure: a situation in which a market left on its own fails to allocate resources**



A country's standard of living depends on country production

- Differences in the standard of living from one country to another are quite large.
- Changes in living standards over time are also quite large.
- The explanation for differences in living standards lies in differences in productivity.
- Definition of **productivity: the quantity of goods and services produced from each hour of a worker's time.**

Prices rise when the government prints too much money

- Definition of **inflation: sustained increase in the overall level of prices in the economy**.

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

- Most economists believe that the short-run effect of a monetary injection (injecting/adding money into the economy) is lower unemployment and higher prices.
- An increase in the amount of money in the economy stimulates spending and increases the demand of goods and services in the economy.