

CONCEPT: THREE KEY ECONOMIC IDEAS

- People are ***rational***

☐ Individuals and firms attempt to do their best with what they have.

Exams:	Factories:
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- People respond to economic ***incentives***

☐ People take advantage of opportunities to make themselves better off.

Oil Change:	Apples:
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- To make the best decisions, we use ***marginal analysis***

☐ In economics, marginal means “extra” or “additional”

Key Formula for the entire class:

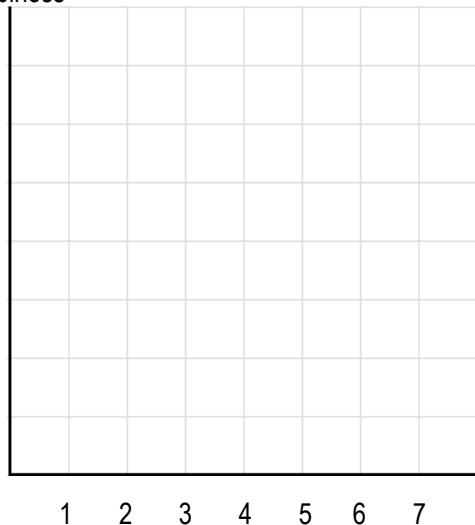
$$\text{Marginal Benefit} = \text{Marginal Cost}$$

- Allocative Efficiency

- Optimum Consumption

- Profit Maximizing Point

Happiness



Slices of
Pepperoni Pizza

Legend:

Marginal Benefit =

Marginal Cost =

PRACTICE: In economics, marginal means

- a) Additional
- b) Extra
- c) One more
- d) All of the above