

2.9: Introduction to the Economic Way of Thinking

What you'll learn to do: explain the assumption of economic rationality, define marginal analysis, and differentiate between positive and normative reasoning.



This module is about how economists analyze issues and problems, which is sometimes referred to as the “economic way of thinking.” In the previous sections of the module, we explored two common models used by economists to think about economic issues. Now we segue into introducing some specific features of economic thinking: economic rationality, marginal analysis, and positive vs. normative reasoning.

Economists assume that humans make decisions in predictable ways. They believe that, when making choices, people try to avoid costs and maximize benefits to themselves. This is what economists mean by rational decision-making.

Economists recognize that very few choices in the real world are “all or nothing.” Most of the time, people have the choice to do a little more or a little less of something: Should you eat one more muffin? Should you study economics for another hour? Should you spend a little less money on gas? Economists use the word *marginal* to mean “additional” or “extra,” and they use the term *marginal analysis* to describe how people make choices by comparing the benefits and costs of doing a bit more or a bit less.

Economists can make two kinds of arguments. Positive reasoning is scientific reasoning, based on theories and evidence. Policy decisions often employ normative reasoning, which is based on values. For reasons we will see later, it is important to be able to differentiate between the two.

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