

The Economic Perspective LO1.1 Define economics and explain the economic perspective. Marginal

**Analysis: Comparing Benefits and Costs** The economic perspective focuses largely on marginal analysis—comparisons of marginal benefits and marginal costs, usually for decision making. Facebook grants users free access to its platform to make sure that it has as many "eyeballs" as possible to sell to advertisers. **Purposeful Behavior** Economics assumes that human behavior reflects "rational self-interest." You may be treated to lunch, making it "free" from your perspective, but someone must bear the cost. The scarce inputs involved in creating the lunch include land, equipment, and farm labor. Because society could have used these resources to produce other things, it sacrifices those other goods and services in making the lunch available. Economists call such sacrifices opportunity costs: To obtain more of one thing, society sacrifices the opportunity of getting the next best thing that could have been created with those resources. **Consider This** This story about Facebook discusses yet another example of a "free" product that is anything but free. Facebook spends over \$50 billion every year updating its platform, running server farms, and paying its employees. Individuals and institutions look for and pursue opportunities to increase their utility—the pleasure, happiness, or satisfaction obtained from consuming goods and services. Because they weigh costs and benefits, their economic decisions are purposeful or rational, not random or chaotic. "Purposeful behavior" does not assume that people and institutions are immune from faulty logic and therefore are perfect decision makers. They pay Facebook over \$100 billion per year to boost content and target ads to specific individuals. To begin with, increasing one's own wage, rent, interest, or profit normally requires identifying and satisfying somebody else's wants! These self-interested, but unselfish, acts help maximize the givers' satisfaction as much as any personal purchase of goods or services. This economic perspective has several critical and closely interrelated features. Indeed, economists acknowledge that people are sometimes impulsive or irrational. **Scarcity and Choice** The economic resources needed to make goods and services are in limited supply. This scarcity restricts options and demands choices. Has Facebook figured out a way to overcome scarcity? But Facebook has figured out a way to more than cover its costs without charging its users a penny. They allocate their time, energy, and money to maximize their satisfaction. "Purposeful behavior" simply means that people make decisions with some desired outcome in mind. Facebook's trick ...is to charge advertisers instead. Economists view things from a unique perspective. **CONSIDER THIS**