

Economics is the study of how humans make decisions in the face of scarcity. Principle 2: The cost of something is what you give up to get it. Because people face trade-offs, making decisions requires comparing the costs and benefits of alternative courses of action. Principle 5: Trade can make everyone better off. The Americans and the Japanese are often mentioned in the news as being competitors to Europeans in the world economy. For example the ultimate scarce resource is time— everyone, rich or poor, has just 24 hours in the day to try to acquire the goods they want. When people are grouped into societies, they face different kinds of trade-offs. In some ways this is true, because American and Japanese firms do produce many of the same goods as European firms. In fact, the opposite is true: trade between two economies can make each economy better off. Trade allows each person to specialize in the activities he or she does best. These can be individual decisions, family decisions, business decisions or societal decisions. Scarcity means that human wants for goods, services and resources exceed what is available. Resources, such as labor, tools, land, and raw materials are necessary to produce the goods and services we want but they exist in limited supply. Making decisions requires trading off one goal against another.