

TIP: Studying economics requires learning both new vocabulary and a new way of thinking.

“Resource” has a particular meaning in economics: it is something that is used to produce something else. Resources are “scarce” for the simple reason that there is not an unlimited supply of time, people, land, and so on. In other contexts, both “resource” and “scarce” may have different meanings. But in economics—to paraphrase Lewis Carroll—we use a word to mean just exactly what we mean it to mean.

TIP: Opportunity cost is at the core of most discussions in economics.

Every activity has an opportunity cost—there is always something we have given up in order to do that activity. What we give up may be quite valuable or it may be inconsequential. But because resources—including time and money—are limited, it is always necessary that we give up something in order to get something else. The opportunity cost of an activity is everything we give up: both the monetary costs of the activity and the forgone opportunity to do something else.

TIP: In economics we assume that people exploit opportunities to make themselves better off.

When someone is presented with two choices—one of which will improve their health and one of which will harm their health—in economics we assume that if everything else is the same, the individual will choose to improve their health. Similarly, if they are presented with two choices that are distinct only in that one choice increases standard of living and the other harms it, economics assumes the individual will choose the increased standard of living. Every discussion in this textbook starts from this assumption, that people exploit opportunities to make themselves better off.