Infusionomics
Infusing economic thinking into everyday learning

***Keystone Economic Principle*™ #1**
We all make *choices*.

- Scarcity forces us to choose.
- We have unlimited wants, but limited resources.
- Goods are considered scarce if people are willing to give up something to attain them.
- We make *rationa*l choices from our own perspective, which depends on our personal value system.
- We sometimes claim we cannot or need not make a choice. But in refusing to choose, we allow someone or something else to make the choice for us. We still reap the benefits or pay the consequences, but we have taken choice out of our own hands.
- Making choices **empowers us**. It changes our focus from "things are happening to me" to "I am an 'actor' who makes things happen because of my actions."
- Material, behavioral, or moral factors, or some combination of all three drive our choices.
- If you have a goal in mind, align your choices with your goals.
- The freedom to choose does not guarantee any particular outcome. If we are free to succeed, we also are free to fail.

***Keystone Economic Principle*™ #2**
TANSTAAFL™ -- There Ain't No Such Thing As A Free Lunch.

- **All** costs should be recognized.
- You often have many initial alternatives from which you can choose, but in the moment of choice, you choose between only two things. That next best choice you didn't pick is called your **opportunity cost.**
- Most choices are not choices between desirable and undesirable options.We usually choose between two similar options or varying degrees of the same thing.

***Keystone Economic Principle*™ #3**
All choices have *consequences*.

- The consequences of our choices lie in the future.
- Predictability of consequences improves decision-making, while unpredictability (lack of a clear, definable pattern) leads to inconsistent decision-making.
- While we do our best to account for all consequences of our choices, there are often unintended consequences which were not anticipated. For

example, if price is our only consideration in buying a used car, we may have a very expensive surprise when it is frequently in the shop.
- Choices made in the past that led to undesirable outcomes cannot be undone but they are good learning experiences, and enable us to make more sound future choices.
- Understanding the past can help us start in the present to make choices that can change the future.

***Keystone Economic Principle*™ #4**
Economic Systems influence choices.
- An economic system INFLUENCES rather than controls your choices. It is one of several determinants, but not the only one.
- An “economic system” simply answers the three basic questions of economics:
    - What to Produce?
    - How to Produce?
    - For Whom to Produce?
- The main differences between economic systems lie in the answers to these questions:
    - Who owns the resources?
    - Who incurs the costs of resource utilization?
    - Who receives the benefits from resource utilization?

***Keystone Economic Principle*™ #5**
Incentives *produce “predictable” responses.*
- “The Carrot” – the positive reward usually referred to as an incentive.
- “The Stick” – the negative reward usually referred to as a disincentive.
- Both the incentive and the disincentive affect our choices.
- Incentives can be both monetary and non-monetary.
- An incentive can produce a more predictable response when both parties share a similar value system.
- In general, that which we subsidize or reward will increase and that which we tax or penalize will decrease.
- If we desire a change in behavior we need to start with a change in the incentives.

***Keystone Economic Principle*™ #6**
Do what you do best, *trade* for the rest.
- Attempting to produce everything you want to consume yourself limits both your production and consumption possibilities.
- To specialize, you must figure out what you “do best.”
- Economists define “best” as that which you produce at the lowest **opportunity cost**. If we must give up only a relatively few things in order to produce a particular good or service, that is said to be a low opportunity cost. Conversely, a high opportunity cost means that we must give up a relatively large number of other goods in order to produce the particular good or service in question.

- By specializing, we can concentrate on producing the goods or services with a low opportunity cost and sell them for the things we would produce at a high opportunity cost. This is what economists mean by comparative advantage. In other words, we are “doing what we do best and trading for the rest”.
- Trade has greater benefits when transactions are **transparent**, **open**, and **honest** while providing reasonable access to perfect information.
- The power relationship between the two trading partners affects perceptions of the value of gains from trade. Some examples of unequal trading relationships are parent/child, employer (or manager)/employee, or teacher/student.

***Keystone Economic Principle*™ #7**
Economic thinking is *Marginal* thinking.

- In thinking economically, “marginal” describes the additional cost (or the additional benefit) of a given behavior. It is evaluating the value of “one more.”
- The question economic thinkers ask is, “Do my **marginal benefits exceed my marginal costs?**” Other folks might ask “Does doing **one more** thing really make me better off?” These are really the same question.
- Inherent in these questions is the notion of **MAXIMIZING BENEFIT** and **MINIMIZING COST**. Economics assumes a rational person would seek to maximize benefits and minimize costs. The benefits and costs we consider are not only quantitative. Our personal value system is a large part of how we view our benefits and costs.
- We tend to “hang on” to questionable decisions made in the past because we want to get value out of time, effort, or dollars dedicated to some prior activity. We say, “I can’t sell my house, sell a stock, quit working toward a degree in art history, stop studying for a test, fire Smith, or change occupations because of *all my time, dollars, or energy* that I’ve already put in”. Your time, dollars, and energy are **sunk costs** and are gone.

***Keystone Economic Principle*™ #8**
Quantity and quality of *resources* impact living standards.

- Living standards can be defined as the level of material comfort as measured by the goods, services, and luxuries available to an individual, group, or nation.
- Living standards are created by the resources we have and the way in which we use them.

There are four types of resources available to us. In economic terms, they are the *Factors of Production* which affect what individuals and nations can produce. They are:

- Natural Resources (Land)
- Human Resources (Labor)
- Capital Resources (Equipment)
- Entrepreneurship (risk, profit motive)

***Keystone Economic Principle*™ #9**

Prices are determined by the market forces of *supply and demand* and are constantly changing.

- Supply and demand are the two words that economists use most often.
- Supply and demand are the forces that make market economies work.
- These concepts work most efficiently in COMPETITIVE markets.