



The Economic Way of Thinking

Human prosperity and social cooperation develop spontaneously in societies that protect private property rights and encourage voluntary trade.

Economic Reasoning Propositions:

ERP-1:

People choose, and individual choices are the source of social outcomes.

Scarcity necessitates choices: not all of our desires can be satisfied. People make these choices based on their perceptions of the expected costs and benefits of the alternatives.

ERP-2:

Choices impose costs; people receive benefits and incur costs when they make decisions.

The cost of a choice is the value of the next-best alternative foregone, measurable in time or money or some alternative activity given up.

ERP-3:

People respond to incentives in predictable ways.

Choices are influenced by incentives, the rewards that encourage and the punishments that discourage actions. When incentives change, behavior changes in predictable ways.

ERP-4:

Institutions are the “rules of the game” that influence choices.

Laws, customs, moral principles, superstitions, and cultural values influence people’s choices. These basic institutions controlling behavior set out and establish the incentive structure and the basic design of the economic system.

ERP-5:

Understanding based on knowledge and evidence imparts value to opinions.

Opinions matter and are of equal value at the ballot box, but on matters of rational deliberation the value of an opinion is determined by the knowledge and evidence on which it is based. Statements of opinion should initiate the quest for economic understanding, not end it.