

The 6 Core Economic Principles



1 People Choose

We always want more than we can get and productive resources (human, natural, capital) are always limited. Therefore, because of this major economic problem of scarcity, we usually choose the alternative that provides the most benefits with the least cost.



2 All Choices Involve Costs

The opportunity cost is the next best alternative you give up when you make a choice. When we choose one thing, we refuse something else at the same time.



3 People Respond to Incentives in Predictable Ways

Incentives are actions, awards, or rewards that determine the choices people make. Incentives can be positive or negative. When incentives change, people change their behaviors in predictable ways.



4 Economic Systems Influence Individual Choices and Incentives

People cooperate and govern their actions through both written and unwritten rules that determine methods of allocating scarce resources. These rules determine what is produced, how it is produced, and for whom it is produced. As the rules change, so do individual choices, incentives, and behavior.



5 Voluntary Trade Creates Wealth

People specialize in the production of certain goods and services because they expect to gain from it. People trade what they produce with other people when they think they can gain something from the exchange. Some benefits of voluntary trade include higher standards of living and broader choices of goods and services.



6 The Consequences of Choices Lie in the Future

Economists believe that the costs and benefits of decision making appear in the future, since it is only the future that we can influence. Sometimes our choices can lead to unintended consequences.



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