Book review: common sense economics

Economics

Strop, Dwight R. Lee, and Tawny Fearing, gives a simple insight for reader into the inner workings economics in a common sense terms. The main point of the book is that to have economic success comes from low interference from the government, themotivationof individuals, and competitive markets. In the beginning of the book, the authors of the book started to breakdown this message of economics by explaining to the readers the twelve key elements of economics. . Incentives matters 2. There is no such thing as free lunch 3. Decisions are made at the margin 4. Trade promotes economic progress 5. Transaction costs are an obstacle 6. Prices bring the choices of buyers and sellers into balance 7. Profits direct businesses towards activities that increase wealth 8. People earn income by helping others Oh 9. Production of goods and services people value not Just Jobs, provide the source of high living standards 10. Economic progress comes primarily through trade, investment, better ways of doing things, and sound economic institutions. 1. The invisible hand" of market prices directs buyers and seller toward activities that promotes the general welfare. 12. Too often the long term consequences, or the secondary effects, of an action are ignored. The authors felt that these key concepts were important for the readers to understand the inner workings of the economic success. These key concepts are needed from readers to understand the true meaning of values, cost, prices, and standard of living.

In the authors' minds, they felt these key concepts were needed to help explain important concepts that they would explain later on in the reading. The first concept, Incentives Matter, is the first concept that that the authors talked about in the book. They put great emphasis on this particular concept.

They explained that this very concept was the basis for economics. They explained that: " Changes in incentives influence human behavior in predictable ways". The main point of this concept is that the more attractive an option is the more likely an individual to choose it.

Another point that they also focused on was the fact that if a particular product more costly, the more unappealing it will become to the consumer. They used examples such as employees will worker harder if they feel that they will be greatly rewarded or a student will study material that they feel will be on an exam. This concept also can be correlated with political process as well. It is explained that citizens will vote for candidates will benefit them in their own personal lives. The second important concept was " There is no such thing as a free lunch".

This concept is built based upon human desire for good being unlimited and the limited resources to match that could not possible match those resources. This is relates to he theme of opportunity costs. This means that the choice of one thing, but you must sacrifice the opportunity to do another thing. There are opportunity costs with producers with the cost of outputting quality goods and adhering to regulations put on by the government. The next concept is " Decisions are made at the margin" this meant that individuals wanted to get the most out their resources.

You want to have most benefits out your actions. One thing that the authors put emphasis on is the fact that all decisions include what they called " addition and subtractions". They just always put into thought if the prospects of additional benefits outweigh the potential cost that may be involved when it comes to the decision made. This similar to a business owner who expanding their business, they have to factor in the cost of expanding and the potential profit. The fourth concept is " Trade promotes economic progress. The authors of the explain that trade is based on the principle of the personal gain on both sides. This means through trade both sides benefit from trade. They explain that through trade it takes product or service that may not be valuable n that area and bring to a place that it is valuable. This allows both sides to benefit, one side is getting a good or service that they don't have and another side get to make profit on something that may not be to value in that area. Aha 4 The next concept goes in hand with the last concept, " Transaction Cost is an obstacle to trade".

It is explained as the cost of trade. This can be seen as the resources used to help bring about trade. If the cost of trade is high, it can a lot of time hinder the benefits of the trade. An example of this transaction cost is the cost of the middleman. With this concept the authors explain how involving a middleman is necessary in trade, but can add an expanse of trade. This expense is often added on to the price of the product being traded. This can also hinder or detour an individuals from buying this item. The sixth concept in the book touches on the subject of prices.

It is called " Prices bring the choices of buyers and sellers in to balances. The basic idea of this concept is that prices will be the driving force of how buyers and sellers will make their choices. This brings in the laws of supply and demand. In the summary, these laws describe how the price will always bring the errs and seller on balanced accord. This means if the prices set by the seller is too high, the buyer will either not buy that product or buy less units, and this will force the seller to lower the price but to the equilibrium price.

If the price is too low then the buyer will buy more units of the product. This means there is an increase in demand; this will force the seller to raise the prices back to the equilibrium price. The next concept is pretty self-explanatory. Profits direct business towards activities that increase wealth. This is basically saying that business owners will partake in any different ventures, but they will cut the ones that do not produce economic wee TN. This is n Oh be done or I t will hinder economic progress.

The next concept challenges what most people would think of contrary to what most people think. The concept that the authors is talking about is " People earn income by helping others". Those who have obtained financial wealth achieved this because they have skills that people in general have found to be important. They continue to explain that if a individual is unwilling to help other people, it is very likely that you will not receive a high income.