UNIT 1
Macroeconomics

LESSON 1

The Economic Way of Thinking

Introduction and Description
AP Economics has many details that can confuse students. Students need a framework to organize these details. This lesson acquaints students with basic economic concepts and methodology. It begins with some key economic ideas that represent a new way of looking at the world. The lesson ends with a test of economic myths that should get students' attention. This exercise also gives the teacher a way of reinforcing the economic concepts taught at the beginning of the lesson.

Objectives
1. Define scarcity.
2. Define opportunity cost.
3. Define the economic way of thinking.
4. Apply scarcity concepts to a variety of economic and noneconomic situations.

Time Required
One class period or 45 minutes

Materials
1. Activity 1-1
2. Visual 1-1

Bell Ringer
Have you ever been treated to a free lunch? What do economists mean when they say, “There is no such thing as a free lunch”? Explain the TINSTAAFL Principle, and have students give examples of this principle in their own lives.

Procedures
1. Display Visual 1-1 and discuss the economic way of thinking. Here are some discussion ideas for each point on the visual.

- **Everything has a cost.**
  This is the basic idea of the TINSTAAFL Principle. It means that every action costs someone time, effort, or lost opportunities to do something else. Introduce the term opportunity cost here. Stress the concept that people incur costs when making decisions, even when people appear to pay nothing. Help students recognize that the true cost of a decision is measured in foregone alternatives rather than in dollars.

- **People choose for good reasons.**
  Because of scarcity, people always face choices, and they should choose the alternative that gives them the most advantageous combination of costs and benefits. You might stress here that if people have different values, they may make different choices. This might be a good place to discuss normative versus positive economics. Economists tend to be tolerant because they realize people choose for good reasons.

- **People gain from voluntary trade.**
  People trade when they believe the trade makes them better off. If they expect no benefits, they don't trade. Part of the AP Macroeconomics course focuses on international trade. However, once again it is people, not countries, that trade. A market system is about voluntary trade. Economics
is about voluntary trade between parties that respond to incentives.

- **Economic thinking is marginal thinking.**
  Students must understand the fact that marginal choices involve the effects of additions and subtractions from current conditions. (Should I study another hour for my economics exam? Should I work another hour this weekend?) Marginal thinking will be stressed in Units 3 and 4, where the theories of the firm and factor markets are discussed. It is important that marginal decision making is discussed in every unit.

- **The value of a good or service is affected by people’s choices.**
  Goods and services do not have intrinsic value; their value is determined by the preferences of buyers and sellers. Because of this, trading moves goods and services to higher-valued uses. This is why trading is so important. The price of a good or service is set by supply and demand.

- **Economic actions create secondary effects.**
  Good economics involves analyzing secondary effects. For example, rent controls make apartments more affordable to some consumers, but they also make it less profitable to build and maintain apartments. The secondary effect is a shortage of apartments and houses for rent.

- **The test of a theory is its ability to predict correctly.**
  Students will discuss many theories in an AP Economics course. All these theories have simplifying assumptions. However, the proof of the pudding is in the eating. If the theory correctly predicts the consequences of actions, it is a good theory. Nothing is “good in theory but bad in practice.”

2. Tell students that they are going to take a brief quiz. Have students turn to Activity 1-1 in the student resource manual. Give them a few minutes to answer the questions.

3. When everyone is finished, either poll students on their answers or simply announce that all the answers are false. Some students will think this is a cheap trick.

4. Discuss the answers, and as you do, explain some of the basic laws of economics. Economics is the study of human behavior, and principles have been developed to explain this behavior.

You are laying the foundation for your students’ understanding of the economic way of thinking!
The Economic Way of Thinking

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- People choose for good reasons.

- People gain from voluntary trade.

- Economic thinking is marginal thinking.

- The value of a good or service is affected by people’s choices.

- Economic actions create secondary effects.

- The test of a theory is its ability to predict correctly.