## The 10 Fundamental Principles of Economics:

- 1. People respond to incentives.
- 2. People face trade offs.
- 3. Rational people think within the margin.
- 4. Free trade is perceived mutual benefit.
- 5. The invisible hand allows for indirect trade.
- 6. Coercion magnifies market inefficiency.
- 7. Capital magnifies market efficiency.
- 8. Supply and demand magnify resource efficiency.
- 9. There's no such thing as a free lunch.
- 10. Desires are infinite; resources are finite.

I'll go into detail with a short summary of how these economic principles work in economics. Of course, a longer explanation is necessary but is too much for a single article. I'll continue to write longer explanations of each principle in the following weeks. If you'd like to read them, make sure to subscribe to our newsletter at the right or at the bottom of any page on this website.

## The 10 Undeniable Principles of Economics Explained:

- **People respond to incentives.** This is an unavoidable concept found in human behavior. It's just how people function. We respond to incentives. Incentives aren't necessarily "selfish" in the traditional sense, but they all appeal to our values whether conscious or subconscious. Examples would be accepting a job to make money, donating to charity to help the poor, going to church to learn about God anything where we essentially do what we want. People respond to incentives.
- **People face trade offs.** It's impossible to get everything you want at the exact same time. It's impossible for me to sleep all day and work all day. It's impossible for me to grill a steak at home while also dine at Olive Garden. This means people face trade offs. We have to trade one thing for another thing there's no other option. This is why people often barter with others. People are willing to trade 7 years of college work for the ability to become a lawyer, lot's of money for a house, and pretty much every other choice in life. People face trade offs.
- **Rational people think within the margin.** Thinking within the margins means trying to get the best result. In other words, if you have the option of choosing a good car or a perfect car, the rational choice is the perfect car. All things being equal, the better option is better. Thinking within the margins is essentially believing in net benefits focusing on the best thing possible. Rational people think within the margins.
- Free trade is perceived mutual benefit. When people trade in a free market, it's because they are both responding to peaceful incentives. For example, an employee trades time for money because they want money. An employer trades money for labor because they want the labor. Both sides are acting in a way that they think benefits them as much as peacefully possible. This is true for all trades. People buy stuff because they're reacting to incentives. This is a critical concept, especially when we mix it with the above principle of rational people thinking within the margin. People act in a way they think benefits them.

- The invisible hand allows for indirect trade. The invisible hand is the market force that does what no individual could do on his own. For example, no single country on earth has all of the resources and industry necessary for the creation of a single pencil. It takes a dozen companies and several countries working together through trade to make that pencil. Not all of those who contribute to the creation of the pencil will ever meet or even know of each other that's why it's referred to as the miracle of the invisible hand. The market does more on it's own than any individual can possibly do on his own because the invisible hand allows for indirect trade.
- Coercion magnifies market inefficiency. The invisible hand operates through the free market. That is, through people acting in a way that benefits them. The people mining lead, for example, aren't doing it because they're thinking about your ability to use a pencil. They don't even know where the lead they're mining is going. They're acting on the basis of the free market, and the free market's invisible hand is taking care of the rest. Using coercion that is, manipulating the incentives people respond to focuses on less production and more exploitation. What this means is that instead of everyone focusing on how to peacefully produce and trade for as much as possible, it changes the rules so that it's possible to just take or force others to give you what you want. This makes about as much sense as a farmer eating his milk cow. The more coercion in a market, the less efficient it is. For examples of this in action, just look at any socialized nation in the history of mankind. Coercion magnifies market inefficiency.
- **Capital magnifies market efficiency.** Capital is the magic behind the invisible hand. It allows people who have never met to barter. Capitalism is essentially juiced up barter economy. A pig farmer is trading pigs for stuff at Wal Mart he's just using currency for the sake of making the bartering more efficient. The existence of capital means that you can produce one thing, earn money, and trade that money for something else entirely without the person you're trading with needing to accept what you're producing. Capital is an ingenious method of allowing anyone to trade with anyone, as long as both are productive people who produce more than they consume. Capital magnifies market efficiency.
- **Supply and demand magnify resource efficiency.** Market forces work so that if there's a demand for something as well as a potential supply of it, the market will try to unleash the supply to meet the demand. This will eventually lead to market equilibrium where the demands are quenched as much as possible by the market. This is honestly just an end conclusion of the very first principle of economics people respond to incentives. Making money filling market demands is an incentive that nearly everyone reacts to during their lives.
- There's no such thing as a free lunch. This is a simple concept. Nothing is free. All wealth must be earned. You can't use black magic economics to create something out of nothing. Every bit of wealth has to be earned. Welfare gets the money from someone. Government spending takes money from somewhere. Even if one person benefits without paying for it, someone else has to pay for it. There's no such thing as a free lunch.
- **Desires are infinite. Resources are finite.** We don't live in a magical world where stuff is created from nothing. Everything that is produced is based on a complicated, long train of trade offs. The question isn't whether we can judge each trade off

individually — the question is how we determine to make those trade offs. People who support socialized medicine often completely miss this basic concept, and believe that capitalists just want the poor to die or stay sick. This is absurd. There are only so many doctors and nurses — the question is how to take what we have and disburse it in a manner that doesn't cause rationing and inefficiency. That's why socialized medicine always creates health slavery and rationing. It's not "free", because nothing is free.

**Studying these principles of economics will give you a road-map for understanding economic events.** You'll see why most government economic plans fail, why capitalism always works, why socialism always fails, why peace always produces, and why war always destroys.

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