

Chapter 7

ECO 2013

Core Principles

Scarcity Principle - the chapter illustrates how increased income allows to movement of resources to "luxuries" like research and development and a clean environment - a trade-off not as easy in countries with low incomes.

Cost-Benefit Principle - the chapter uses this principle to explain how an individual makes the decision to invest in human capital, how a firm will allocate capital, and how the level of research and development are determined.

Principle of Comparative Advantage - the chapter uses this principle to explain how countries will determine what to produce and where they will sell their products.

Not-All-Costs-Count-Equally - the chapter applies the principle of increasing opportunity costs (the low-hanging-fruit principle) to firm decisions.

Equilibrium Principle - this principle is applied to the fall of communism and the provision of public education.

Important Concepts

- Compound interest
- Diminishing returns to capital
- Entrepreneur