The Need for Abstraction

Because the real economic world is so complex, economists must abstract from details in order to provide an explanation.

Much of the art of economics involves finding the most useful degree of abstraction.

Economics is about any one particular individual (i.e., it’s NOT about you) or how you can get rich.
What Is an Economic Model?

An economic model is a simplified, small-scale version of some aspect of the economy.

Economic models are often expressed in equations, by graphs, or in words.

Other Sciences Use Models
Reasons for Disagreements

- Economists agree on more than the public gives them credit for.

- Positive versus Normative
Your Preconceived Ideas

- Common sense is not always reliable.
  - Beware: some economic relationships are counterintuitive.
- The Fallacy of Composition
- Self-fulfilling Expectations
- Correlation versus Cause and Effect
- Representative behavior (statistical averages)