

The Powell Institute for Economic Literacy First Three Principles

Principle #1

We all make choices.

We all have unlimited wants, but limited resources. Scarcity forces us to make choices.

<http://powellcenter.org/principle1.asp>

- Scarcity forces us to choose.
- We have unlimited wants, but limited resources.
- Goods are considered scarce if people are willing to give up something to attain them.
- We make rational choices from our own perspective, which depends on our personal value system.
- We sometimes claim we can not or need not make a choice. But in refusing to choose, we allow someone or something else to make the choice for us. We still reap the benefits or pay the consequences, but we have taken choice out of our own hands.
- Making choices empowers us. This changes our focus from "world happening to" to "I am an 'actor' who makes things happen because of my actions."
- Material, behavioral, or moral factors, or some combination of all three drive our choices.
- To carefully consider choices, we need to distinguish between needs and wants. You need clothing. You want a \$1000 suit.
- Not all wants are equally desirable, and you should establish some sort of hierarchy of wants according to the benefit you derive from them.
- If you have a goal in mind, align your choices with your goals.
- The freedom to choose does not guarantee any particular outcome. If we are free to succeed, we also are free to fail.

Principle #2

TANSTAAFL

There Ain't No Such thing As A Free Lunch

<http://www.powellcenter.org/Principle2.asp>

- **All** costs should be recognized.
- You often have many initial alternatives from which you can choose, but in the moment of choice, you choose between only two things. That next best choice you didn't pick is called your **opportunity cost**.
- Most choices are not choices between desirable and undesirable options. We usually choose between two desirable options.
- Sometimes we confuse *Cost* and *Price*. If you ask the average person, "How much did those new shoes cost?", they'll generally give the answer in monetary terms and say "\$100." The *price* of the shoes was \$100. If, however, we are thinking economically, we realize that the \$100 represents time or leisure given up in exchange for the \$100 in income. So the real cost of your shoes might be 20 hours bagging groceries, after the government deducts for taxes.
- Economics measures tangible AND intangible costs such as time, labor, morality, safety, or forgone leisure.

Robert Frost's *The Road Not Taken* illustrates opportunity cost better than any work of fiction, non-fiction, or economics ever could.

"I shall be telling this with a sigh
Somewhere ages and ages hence:
Two roads diverged in a wood and I-
I took the one less traveled by,
And that has made all the difference."

Robert Frost, *The Road Not Taken*

Principle #3

All choices have consequences

We can NOT influence the past—we can only influence the future by evaluating the costs and benefits of our actions—even if there are unanticipated consequences.

<http://powellcenter.org/principle3.asp>

- The consequences of our choices lie in the future.
- Predictability of consequences improves decision-making, while unpredictability (lack of a clear, definable pattern) leads to inconsistent decision-making.
- While we do our best to account for all consequences of our choices, there are often unintended consequences which were not anticipated. For example, if price is our only consideration in buying a used car, we may have a very expensive surprise when it is frequently in the shop.
- Choices made in the past that led to undesirable outcomes cannot be undone but they are good learning experiences, and enable us to make more sound future choices.
- Our character is the sum of thousands of choices made throughout our lives.
- The world in which you live is the product of choices made in the past by your ancestors, historical figures, nature, and other influences known and unknown to you.
- Understanding the past can help us start in the present to make choices that can change the future.
- Children need a framework for making choices that considers costs and benefits. This is best begun at as early an age as possible, NOT saved for adulthood.