

## **Eight Lessons**

These eight lessons are the ultimate take home messages of this course. If, ten years from now, you have forgotten everything from this class, but you remember, understand, and can correctly apply these eight principles, you will have kept what really matters out of this course.

### **1. The power of arbitrage, or “there are no \$20 bills”**

Arbitrage tends to eliminate profitable opportunities very quickly. This lesson, therefore, has two corollaries. First, if you see something that looks like a \$20 bill lying in the street, look twice to make sure it is. Second, if, after a second look, it really is a \$20 bill...grab it fast!

### **2. The information and coordination role of prices, or “the invisible hand”**

Economics is at heart about the allocation of scarce resources. The price mechanism both conveys information about where resources ought to move, and gives incentives for those resources to actually move.

### **3. Opportunity cost**

Any correct calculation of cost includes opportunity cost. The value of any choice you make should be weighed against what it is you are giving up.

### **4. Sunk costs don't matter**

In making decisions, you should only care about what you can still control. Mistakes in the past, if they cannot be corrected, should be learned from but should not influence future decisions. Don't cry over spilled milk.

### **5. Decisions should be made on the margin**

In working toward an objective, such as profits, you should engage in an activity until the benefit of the incremental unit exactly equals the cost, including opportunity cost, of that incremental unit of activity. That far, and no farther. Remember the “bang for the buck.”

### **6. Zero economic profits in the long run**

The market forces of profit seeking and entry or arbitrage will tend to drive economic profits to zero in the long run. You should only expect to exceed the normal rate of return if there is indeed something beyond the normal that you do: a differentiated product, unusually low costs, uniquely efficient organization, etc.

## **7. Efficiency**

A free market systems will, in many cases, produce the greatest possible aggregate benefit for the least possible cost.

## **8. Values**

Economic efficiency is not the only thing that matters. Economics is a set of tools, not a set of values. Economics gives you tools to accomplish your goals in an optimal an efficient way. Use the tools to serve your goals and values.