

# Super Six

## 1. Positive vs. Normative economics

- **Positive economics** describes **what is** (facts, cause-and-effect).
  - *Example:* "Raising the minimum wage increases unemployment."
- **Normative economics** prescribes **what should be** (value judgments).
  - *Example:* "The minimum wage should be raised."

## 2. Real vs. Nominal Economic Variables

- **Nominal price** = the price of a good **in dollars**
- **Real price** = the price of a good **in terms of other goods**  
*Key idea:* Real variables matter for comparing over time.

Note: **In Macro:** nominal variables are *current dollars*, and real variables are *adjusted* for **inflation**, reflecting *real purchasing power*.

## 3. Opportunity Cost

- **Opportunity cost:** The value of the **next best alternative** you give up when making a choice.
  - Important: *only* the next best option counts, not every possible forgone alternative.

## 4. Margin and Marginal Analysis

- Decisions are made **at the margin:** ask whether the **additional** unit's benefit exceeds its cost.
- A rational decision compares **marginal benefit (MB)** to **marginal cost (MC)**.
  - *Rule:* Take an action if  **$MB \geq MC$** .

## 5. Diminishing Returns

- The second cup of coffee provides less additional benefit than the first, **but** Johnson still prefers two cups to one. To make Johnson willing to consume more coffee, the price must fall to compensate for the diminishing return.

## 6. Ceteris Paribus

- **Ceteris paribus** means "all else equal."
- It isolates the effect of changing **one variable at a time**, holding others constant.