

Mankiw's Ten Principles of Economics, Translated for the Uninitiated

by [Yoram Bauman](#)¹ (revised June 12, 2002)

The cornerstone of Harvard professor N. Gregory Mankiw's introductory economics textbook, *Principles of Economics*, is a synthesis of economic thought into Ten Principles of Economics (listed in the first table below). A quick perusal of these will likely affirm the reader's suspicions that synthesizing economic thought into Ten Principles is no easy task, and may even lead the reader to suspect that the subtlety and concision required are not to be found in the pen of N. Gregory Mankiw.

I have taken it upon myself to remedy this unfortunate situation. The second table below summarizes my attempt to translate Mankiw's Ten Principles into plain English, and in doing so to provide the uninitiated with an invaluable glimpse of the economic mind at work. Explanations and details can be found in the pages that follow, but the average reader is advised to simply cut out the table below and carry it around for assistance in the (hereafter unlikely) event of confusion about the basic Principles of Economics.

Mankiw's Principles

#1	People face tradeoffs
#2	The cost of something is what you give up to get it
#3	Rational people think at the margin
#4	People respond to incentives
#5	Trade can make everyone better off
#6	Markets are usually a good way to organize economic activity
#7	Governments can sometimes improve market outcomes
#8	A country's standard of living depends on its ability to produce goods and services
#9	Prices rise when the government prints too much money
#10	Society faces a short-run tradeoff between inflation and unemployment

Yoram's Translations

#1	Choices are bad
#2	Choices are <i>really</i> bad
#3	People are stupid
#4	People aren't <i>that</i> stupid
#5	Trade can make everyone worse off
#6	Governments are stupid
#7	Governments aren't <i>that</i> stupid
#8	Blah blah blah
#9	Blah blah blah
#10	Blah blah blah

¹ I welcome comments—humorous or otherwise—about this or about my own microeconomics text, *Quantum Microeconomics*, which can be found online at <http://students.washington.edu/yoram>

Explanations and Details

At first glance, the reader cannot but be impressed by the translation's simplicity and clarity. Accessibility, however, should not be mistaken for shallowness: further study will reveal hidden depths and subtleties that will richly reward the attentive student. Indeed, a moment's reflection will identify any number of puzzles and mysteries. Chief among them is probably this: Why do Principles #8, #9, and #10 have *identical* translations?

The immediately obvious explanation is that these are macro-economic principles, and that I, as a micro-economist, am ill equipped to understand them, let alone translate them.² As is often the case in this complex world we live in, this immediately obvious explanation is also wrong. The true reason I have provided identical translations of “Blah blah blah” for Principles #8, #9, and #10 is that these principles say exactly the same thing, namely, “Blah blah blah.” Sometime when you've got a few hours to spare, go and ask an economist—preferably a macro-economist—what he or she really means by “standard of living” or “goods and services” or “inflation” or “unemployment” or “short-run” or even “too much.” You will soon realize that there is a vast difference between, say, what Principle #10 *says*—“Society faces a short-run tradeoff between inflation and unemployment”—and what Principle #10 *means*: “Society faces blah between blah and blah.” My translations are simply concise renderings of these underlying meanings.

Having cleared up that issue, let us go back to Mankiw's

Principle #1: People face tradeoffs

Translation: Choices are bad

The reasoning behind this translation is obvious. For example, imagine that somebody comes up to you and offers you a choice between a Snickers bar and some M&Ms. You now have a tradeoff, meaning that you have to choose one or the other. And having to trade one thing off against another is bad; President Truman supposedly asked for a one-armed economics advisor because his two-armed economics advisors were always saying, “On the one hand...but on the other hand...”

People who have not received any economics education might be tempted to think that choices are good. *They aren't.* The (mistaken) idea that choices are good perhaps stems from the (equally mistaken) idea that lack of choices is bad. This is simply not true, as Mancur Olson points out in his book, *The Logic of Collective Action*: “To say a situation is ‘lost’ or hopeless is in one sense equivalent to saying it is perfect, for in both cases efforts at improvement can bring no positive results.”

Hence my translation of Mankiw's first principle of economics: Choices are bad. This concept can be a little difficult to grasp—nobody ever said economics was easy—but the troubled reader will undoubtedly gain clarity from Mankiw's

² The exact meanings of the terms “micro” and “macro” may be lost on the reader—or, more likely, may never have been found in the first place. This should not be cause for concern: absence of these terms from Mankiw's Ten Principles indicates that they are not of fundamental economic importance.

Principle #2: The cost of something is what you give up to get it
Translation: Choices are *really* bad

Beyond transforming Mankiw's semantic deathtrap into simplicity itself, this translation has the advantage of establishing a connection between Principle #1 (Choices are bad) and Principle #2 (Choices are *really* bad).

To continue to deepen the reader's understanding of why choices are bad—*really* bad—let's return to our previous example, in which somebody offers you a choice between a Snickers bar and a package of M&Ms. Suppose, for the sake of argument, that you take the M&Ms. According to Mankiw, the *cost* of those M&Ms is the Snickers bar that you had to give up to get the M&Ms. Your gain from this situation—what economists call “economic profit”—is therefore the difference between the value you gain from getting the M&Ms (say, \$.75) and the value you lose from giving up the Snickers bar (say, \$.40). In other words, your economic profit is only \$.35. Although you value the M&Ms at \$.75, having the choice of the Snickers bar *reduces* your gain by \$.40. Hence Principle #2: Choices are *really* bad.

Indeed, the more choices you have, the worse off you are. The worst situation of all would be somebody coming up to you and offering you a choice between two *identical* packages of M&Ms. Since choosing one package (which you value at \$.75) means giving up the other package (which you also value at \$.75), your economic profit is exactly zero! *So being offered a choice between two identical packages of M&Ms is in fact equivalent to being offered nothing.*

Now, a lay person might be forgiven for thinking that being offered a choice between two *identical* packages of M&Ms is in fact equivalent to being offered a *single* package of M&Ms. But economists know better. Being offered a single package of M&M effectively means having to choose between a package of M&Ms (which you value at \$.75) and nothing (which you value at \$0). Choosing the M&Ms gives you an economic profit of \$.75, which is \$.75 more than your economic profit when you are offered a choice between two identical packages of M&Ms.

At this point it is worth acknowledging that (1) there may be readers who have failed to grasp the above subtleties in their entirety, and (2) such readers may well be beginning to wonder whether they are, in a word, stupid. Any lingering doubts should be eliminated by the Mankiw's

Principle #3: Rational people think at the margin
Translation: People are stupid

One point that is immediately obvious to the most casual observer with the meanest intelligence is that most people *do not* think at the margin. For example, most people who buy oranges at the grocery store think like this: “Hmmm, oranges are \$.25 each. I think I'll buy half a dozen.” They do *not* think like this: “Hmmm, oranges are \$.25 each. I'm going to buy one, because my marginal value exceeds the market price. Now I'm going to buy a second one, because my marginal value still exceeds the market price...” We *know*

most people don't think like this because most people don't fill their shopping baskets one orange at a time!

But we are now led inexorably toward a most unhappy conclusion. If—as Mankiw says—rational people think at the margin, and if—as we all know—most people do not think at the margin, then most people are not rational. Most people, in other words, are stupid. Hence my translation of the third principle of economics: People are stupid.

Before sinking into despair for the fate of the human race, however, the reader would be wise to consider Mankiw's

Principle #4: People respond to incentives.

Translation: People aren't *that* stupid.

The dictionary says that incentive, *n.*, is 1. Something that influences to action; stimulus; encouragement. SYN. see *motive*.

So what Mankiw is saying here is that people are motivated by motives, or that people are influenced to action by things that influence to action. Now, this may seem to be a bit like saying that tautologies are tautological—the reader may be thinking that people would have to be *pretty stupid* to be unmotivated by motives, or to be inactive in response to something that influences to action. But remember Principle #3: People *are* stupid. Hence the need for Principle #4, to clarify that people aren't *that* stupid.

Only truly stupid people can fail to understand my translation of Mankiw's

Principle #5: Trade can make everyone better off

Translation: Trade can make everyone worse off

But, the reader may well be asking, isn't the translation of the fifth principle the exact opposite of the principle itself? *Of course not.*

To see why, first note that "trade can make everyone better off" is patently obviously: if I have a Snickers bar and want M&Ms and you have M&Ms and want a Snickers bar, we can trade and we will both be better off. Surely Mankiw is getting at something deeper than this? Indeed, I believe he is. To see what it is, compare the following phrases:

A: Trade *can* make everyone better off

B: Trade *will* make everyone better off

Now, Statement B is clearly superior to Statement A. Why, then, does Mankiw use Statement A? It can only be *because Statement B is false*. By saying that trade *can* make everyone better off, Mankiw is conveying one of the subtleties of economics: trade can

also *not* make everyone better off. It is a short hop from here to my translation, “Trade can make everybody worse off.” (A numerical example can be found in this footnote.³)

The subtlety evident in Principle #5 is even more clearly visible in the next two principles.

Principle #6: Markets are usually a good way to organize economic activity

Translation: Governments are stupid.

Principle #7: Governments can sometimes improve market outcomes

Translation: Governments aren’t *that* stupid.

To see the key role that Principle #5 plays in both of these statements, note that the original phrasing of Principle #5 (“Trade can make everyone better off”) leads to Principle #6 (“Governments are stupid”). After all, if trade can make everyone better off, what do we need government for? But the translation of Principle #5 (“Trade can make everyone worse off”) leads to Principle #7 (“Governments aren’t *that* stupid”). After all, if trade can make everyone worse off, we better have a government around to stop people from trading!

Like the first five principles, Principles #6 and #7 demonstrate the fine distinctions inherent in the economic way of thinking. People are stupid, but not *that* stupid; trade can make everyone better off, but it can also make everyone worse off; governments are stupid, but not *that* stupid. Exploring, refining, and delineating these distinctions is the subject matter of upper-level economics classes, doctoral dissertations in economics, and the vast majority of papers in the *American Economic Review* and other scholarly journals. Should the reader decide to follow this path, the fundamental principles described on the first page of this article will provide invaluable guidance.

³ Consider a small town with three families. It just so happens that Family #1 needs a snowblower, Family #2 needs a leafblower, and Family #3 needs a lawnmower; each family values their particular need at \$200. Fortune appears to be smiling on this town, because it also just so happens that Family #1 owns a leafblower, Family #2 owns a lawnmower, and Family #3 owns a snowblower. These sit unused in their respective garages; each family has no use for its current piece of equipment, and therefore values it at \$0.

The situation appears ripe for gains from trade: Family #1 could buy a snowblower from Family #3 for \$100, Family #2 could buy a leafblower from Family #1 for \$100, and Family #3 could buy a lawnmower from Family #2 for \$100. Each family would be \$200 better off.

Unfortunately, life in this small town is not so simple; the town is located in a valley that is susceptible to severe air pollution problems. Blowers and mowers emit large quantities of air pollutants, and in fact each blower or mower that is used will make air pollution so bad that hospital bills (for asthma &etc) will increase by \$80 for each family. *Three* additional blowers and mowers will therefore increase each family’s bills by \$240.

Two results follow. First, the trades will still take place. For example, Family #1 and Family #3 will both be better off by $\$100 - \$80 = \$20$ if Family #3 sells Family #1 its snowblower for \$100. Second, the three trades together make everyone worse off: each family gains \$200 from buying and selling, but loses \$240 in hospital bills, for a net loss of \$40.