

# Five Basic Principles of Human Action

ECON 1a, Fall 2008, Warren Gibson

This little writeup explains some very basic principles of human behavior. They are important because they form the foundation of economic analysis but are not given in your text.

Economics deals with the actions of human beings, and humans are not machines. We have *volition*, which means the ability to initiate our own actions. We have goals, we make plans, we take action. We act because we expect to be better off as a result of that action than we would have been if we had taken some other action or had done nothing. Action can take many forms:

- Brushing your teeth
- Going to a movie
- Reading your textbook
- Buying a house

As we will see, economics is concerned with actions people take in the face of scarcity – when they want something that requires them to give up something to get it.

The first principle of human action is:

- (1) People initiate their own actions; they act because they expect to be better off as a result.

Of course, actions do not always achieve the desired outcomes. Have you ever gone to a movie and been disappointed? When we are planning an action, we are considering it from a viewpoint that we call *ex ante* – before the action. When we have taken an action and are looking back at the results, our viewpoint is called *ex post*. If an action disappoints us, we usually try to learn how to change our actions to avoid disappointment next time.

We cannot access the mental states of other people, only our own. We act alone when we initiate action, even though we may be strongly influenced by other people. The second principle of human action is

- (2) Only individuals act, not groups.

It is a convenient shortcut to say that “General Motors announced this” or “the government did that.” In fact, there is no acting entity called “General Motors” or “the government.” What really happens is that individuals who are contractually bound to organizations like GM or the government, engage in actions like making announcements or voting for laws.

The third principle of human action concerns time. There is always at least a small time lapse between initiating an action and getting the results. We don’t live forever and therefore time is scarce. The second principle of human action is:

(3) Other things being equal, we would rather have some satisfaction sooner than later.

By “other things being equal” we mean we believe the two satisfactions are identical in every way except for the time we have to wait for them. We can be induced to wait if we are offered *interest*. Although we usually think of interest as money, in its most general sense interest is simply *compensation for delayed gratification*.

Diversity is the basis of the next principle, which has two parts. It is really an observation. The first is simply that people are diverse – we are all different. This is not the kind of “diversity” that is preached in universities and elsewhere these days, which focuses on people’s racial or ethnic identities. We are saying that each individual is unique because of different ages, genders, interests, abilities, etc. As we will see, these differences provide opportunities for gains from trade. The second part of this principles says that natural resources are distributed unevenly around the world – there is diversity in land.

(4) People are diverse: each individual is unique. The earth is diverse: resources are unevenly distributed.

The fifth principle is about how we value things. We can make claims about what we value, but true value is only revealed by action. When we choose an apple over an orange, we show that we expect greater satisfaction from an apple than from an orange at that moment. Someone else may have the opposite expectation. This leads to our fourth principle.

(5) Values are subjective and ranked.

Subjective means different for each person and different for a single person at different times. Ranked means we order our values: first, second, third rather than measuring them. Later we will see that market prices, often confusingly called market values, are objective and measured.