Application Of Economic Reasoning In Daily Life

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Introduction

There are many factors, like the demand-to-supply ratio, available resources, employment, etc., that decide the economic behaviour of the market and the individuals' choices regarding their consumption in a society. These economic indicators help economic players to decide their specific actions to optimize their profit either in terms of money, time, or any other preferred advantage and personal satisfaction. It is also not possible for anyone to avoid reason or rationality while making a specific economic decision, considering the scarce resources available. For example, firms have a limited amount of money that they can spend to expand their business and grab the market. Similarly, individuals mostly have a finite time to prefer a particular action over others. Therefore, economic reasoning is critical not only for firms but also for individuals to formulate effective economic policies and make better decisions in daily life.

Economic reasoning is not specified for economists only; instead, all individuals in a society consciously or unconsciously apply it to anticipate the relative costs and benefits of different available alternatives. So, if people are not engaged in effective reasoning, they might end up neglecting the best alternative and are prone to face severe consequences of the decisions.

In this regard, considering the extensive importance of economic reasoning in daily life, the following essay presents an economic analysis of students' decision to go for studies instead of spending time, money, and effort on other activities, including entertainment and jobs. The primary focus of this analysis is to validate that choosing studies over all other alternatives is the best economic choice for students by applying different economic principles of trade-off, comparative advantage opportunity cost, decisions at the margin, and incentives as a guide.

Economic Analysis

Maximum Utility of Resources

The most prominent factor that influences our decision-making in daily life is scarce resources. Time and money, in this regard, are two essential and yet limited resources for individuals' activities. Thus, students who have finished high school and have many alternatives to spend their time and money need to decide critically whether to go further in education or utilize these resources in entertainment activities. Many such students have different preferences based on their financial situation. However, it is conspicuous that education is the most valuable investment that brings several benefits not only for individuals but also for society and the state. So, the first principle of economic reasoning emphasizes the maximum utility of resources. Students can only benefit themselves if they pursue proper education instead of spending their money, time, and efforts on other activities that may appear to be satisfying and profitable in terms of money but will only generate temporary outcomes.

This concept can be further elaborated by Gregory Mankiw's first principle of economics: "People face trade-offs" (Mankiw, 2015). When both producers and consumers decide on a particular activity or action, they just need to leave one or more alternatives because of scarce resources. Thus, choosing to go for higher studies makes students leave other options available that are measured as opportunity costs, as explained in the next section.

Opportunity Cost

Individuals always face many choices in their daily life activities. Therefore, making the optimal choice is critical to ensuring economic advantage in real terms. Since there is a cost associated with every course of action that is equal to the value of the alternative action, individuals give up. Thus, the opportunity cost is the real cost of doing something, which is not usually measured in terms of money and has a significant impact on future economic decisions as well.

By comparing the decision of selecting higher studies instead of spending money and time on other activities, it can be observed that the temporary advantages of other activities are relatively higher because materialistic advantages of education are received gradually over a longer duration of time (Hout, 2012). For example, if a student decides to leave his education due to apparent expenses and get a job in a labour-based market, he focuses on a narrow perspective of life by not adding any value to society and effectively utilizing the available resources. Similarly, if a student belongs to a rich family and does not value the economic benefits of education in comparison to his family's wealth and spends his time merely on entertainment activities, he will bear a lot of opportunity costs because of missing the diverse benefits of education.

In this regard, it is important to analyze the purpose of education and then make decisions accordingly to minimize the cost of opportunity. However, it is reputed that education brings a comparative advantage over all other available choices for students. According to Ozturk (2008), "Education raises people's productivity and creativity and promotes entrepreneurship and technological advances."

Comparative Advantage

Comparative advantage is the ability of someone to do a particular activity at a low opportunity cost as compared to his competitors in the market. In this regard, for individuals, getting a formal education can bring many benefits exclusively in terms of money and status in society, which are a source of satisfaction and the ultimate goal of people. For example, educated people have more knowledge and skills required to live prosperous lives, considering the dominant trend of hiring only skilled people in the market. Also, prior education before initiating a business or promoting a business provides extensive research analysis and flourishes relevant skills to ensure continuous growth that finally brings the comparative advantage of being a knowledgeable, proficient, competent, respected, and growing person in society.

Moreover, as technology is replacing the shifting ways of living, the importance of education has also increased because people are now evaluated on the basis of the knowledge they have and their interpersonal skills. In this regard, getting an education enables people to become resilient to different market changes and develop and adopt necessary strategies to deal with them. This also can be regarded as a comparative advantage of education.

Marginal Benefits

There are always some additional benefits or costs associated with the specific decision, and economic reasoning is utilized to optimize them. For example, the cost of spending money on study resources is higher than spending it on a particular entertainment activity like watching a film or shopping, etc. However, upon a critical investigation of their relative benefits, it can be observed that the study resources bring relatively tremendous benefits. Thus, the rational decision will always be spending resources on studies comparatively because it brings marginal benefits.

However, it is important to note that the marginal benefits are significantly different from the total and average benefits. For example, in the current case of preferring education over other alternatives, the marginal benefit is the easy access to several opportunities that an educated person has as compared to those who do not have formal education and expertise in a particular discipline.

Incentives

Incentives are the key drivers behind the decisions and actions of the economic players. These incentives can be remunerative in the form of material rewards, moral rewards in terms of appreciation and recognition from society, and natural incentives to bring mental satisfaction and pleasure (Boundless Economics, 2013). Interestingly, the active response of individuals to get an education is based on all these incentives. For instance, education ensures a bright career for students; it helps students earn a reputed place in society; and finally, it is a source of mental satisfaction for the majority of students. In contrast, all other alternatives available for students do not possess all such incentives collectively. Therefore, the most rational choice is to get an education through spending time, energy, and money.

Conclusion

The economic analysis of the specific activity of prioritizing education over all other available alternatives is the most valuable option for students, as it not only brings material benefits but also provides long-term personal growth. As shown by various factors of economic reasoning, such as opportunity cost, comparative advantage, marginal benefits, and incentives, education has a very long-term influence on the development of individuals as well as society. Therefore, the most rational choice for anyone is to get a proper education and spend his available resources of time and money on educational expenses since it develops a particular skill set among individuals to initiate, develop and lead the activities.

However, the effectiveness of education solely does not support all other economic decisions. The cost-benefit analysis, which is provided in this paper, requires individuals to apply the principle of economic reasoning very carefully to daily life situations. For example, the selection between purchasing a bike or a computer depends on many factors, not merely the fact that a computer is an effective educational resource. In fact, all the elements of economic reasoning stated above need to be applied to reach a specific conclusion.

References

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