Introduction

For well over two hundred years, the field of economics has studied how human societies organize themselves to transform their available resources into the goods and services that their members wish to consume. The outlines of modern economic analysis were already apparent in Adam Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations*, published in 1776, but discussion of topics relevant to economics can be found even earlier in the writings of Aristotle.

At its core, economics is concerned with how individuals make choices and how these individual decisions and actions interact with one another to determine what happens at the level of the entire economy. Modern economics approaches this problem from several directions. Whereas microeconomics begins with the analysis of individual decisions and then explores how these individual decisions are coordinated through market transactions, macroeconomics begins by considering aspects of the behavior of entire economies and develops models that help make sense of these observed phenomena. Although these two branches of economic analysis start from different points, they are unified by a set of fundamental assumptions about human behavior.

This resource guide begins by describing the basic assumptions on which all economic analysis rests. The list of these assumptions is relatively short, and, as you will see, they are not terribly controversial. Yet, these assumptions provide the basis for the development of an extremely rich and flexible set of theories that can account for a wide range of observed phenomena.

In the second and third sections of the resource guide, we describe some of the most important themes in economics. The second section provides a description of microeconomics. This section starts with the model of perfectly competitive markets. Although the assumptions of this model apply precisely to only a small subset of economic activity, it is a crucial starting point. In the remainder of the section, we show how relaxing the assumptions of the perfectly competitive model allows us to analyze a much broader range of phenomena, and how this analysis in turn leads to important insights about public policy and individual actions.

The third section of the resource guide turns to the subject of macroeconomics. It begins by describing important characteristics of aggregate economic performance and how these characteristics are measured. It then lays out a framework for understanding differences over time and across countries in the quantity of output produced by economies and for understanding short-run fluctuations in economic activity.

In the fourth and final section of this resource guide, we employ some of the conceptual tools developed in the first three sections to examine the U.S. economy during the 1920s. We will examine a decade that was marked by significant growth in economic prosperity but that culminated in the onset of the Great Depression (1929–41). We will delve into the causes of that depression and consider the policy measures that were taken to address it. In addition, we will compare that historical event with the more recent experience of the U.S. economy during the Great Recession (2007–09).

NOTE TO STUDENTS: You will notice as you read through the resource guide that some key terms and phrases are boldfaced. While many of these terms are defined and/or explained in the text of the guide, you can also find explanations of these terms in the glossary at the end of the resource guide.