

Principles of Economics – Lecture 1 (Human Action) • Study Notes

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Big Picture

- Economics should be understood as the study of **human action under scarcity**, not as abstract formulas or aggregates.
 - Mainstream economics is confusing because it pretends to imitate physics, building models with false precision but no real constants.
 - The Austrian approach, starting with Mises' *Human Action*, grounds the discipline in **purposeful behavior**: people acting to achieve chosen ends with scarce means.
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Core Claims

1. **University Economics Is Flawed**
2. Modern textbooks are steeped in Keynesian assumptions, high time preference, and irrelevant models.
3. Quantitative formulas promise predictive power but fail to match reality.
4. **The Austrian Alternative**
5. Rooted in Mises and Rothbard, but made accessible here without academic bloat.
6. Economics is about individuals making purposeful choices, not abstract aggregates.
7. **Action Defined**
8. Human action = **purposeful behavior aimed at ends**.
9. Distinguishes rational (deliberate) decisions from instinctive reactions.

10. Animals react by instinct; humans act with reason.
 11. **Methodology**
 12. Austrian economics relies on **logical deduction, thought experiments, and common-sense familiarity with reality.**
 13. Quantitative methods are secondary — data without logic leads nowhere.
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Key Concepts & Mental Models

- **Action:** Will put into operation, directed at ends.
 - **Rationality (Austrian sense):** Deliberate, reasoned choice — not necessarily correct or successful.
 - **Understanding (Verstehen):** The economist's task is to interpret and understand, not to predict with false precision.
 - **Ordinal vs. Cardinal Value:** Value is ranked (ordinal), not measured with fixed units (cardinal).
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Critique of Quantitative Economics

1. **No Constants**
 2. Physics works because constants exist (meters, seconds, kilograms).
 3. Economics has no measurable units of value. Value is subjective.
 4. **No Replicable Experiments**
 5. You can test gases in a lab; you can't recreate human societies.
 6. **Confusing Measurable with Causal**
 7. Economists focus on GDP, CPI, unemployment — measurable aggregates — while ignoring the subjective causes behind them.
 8. **Mistaking Accounting Identities for Causality**
 9. Example: assuming spending causes output just because they're equal in accounting terms.
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Applied Example: Minimum Wage

- Mainstream approach: plug numbers into a Keynesian model → “higher wages → more spending → more jobs.”
 - Austrian approach: analyze human action.
 - Worker accepts job if wage > subjective value of time.
 - Employer hires only if worker’s productivity > wage.
 - Minimum wage law **criminalizes employment** below arbitrary productivity thresholds.
 - Effects: unemployment among low-skilled workers, blocked skill development, rising prices, automation.
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Quotable Ideas

- “Action is purposeful behavior toward the attainment of ends in some future period.” — Mises
 - “Economics has no constants. Without constants, there can be no quantitative laws.” — Ammous
 - “Understanding is the Austrian economist’s goal — not predictive equations.” — Ammous
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Study Prompts

- Define **human action** and explain how it differs from instinct or reaction.
 - Why can’t economics be studied with the same methods as physics?
 - Contrast ordinal vs. cardinal value.
 - Apply Austrian methodology: How would you analyze a law mandating rent control?
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TL;DR

Economics begins with **human action**: individuals acting purposefully to achieve ends with scarce means. Mainstream economics pretends to be physics, but without constants or experiments its formulas are empty. Austrian economics, by contrast, builds logically from human action, subjective value, and understanding. Through this lens, policies like minimum wage laws are revealed not as mathematical levers but as distortions of human choice that harm the very people they claim to help.
