**60 Second Adventures in Economics**

*6. Rational Choice Theory*

60 Second Adventures in Economics – Number six: Rational Choice Theory

Of all the things to factor in when running an economy, the most troublesome is people.

Now by and large – humans are a rational lot. When the price of something rises people will supply more of it – and buy less of it. If they expect inflation to go up – people will usually ask for higher wages – (though they might not get them)

And if they can see interest or exchange rates falling in one country, people with lots of money there will try to move it out, faster than you can say 'double dip'. And governments often decide their economic policies assuming such rational actions.

Which would be great, if it weren't for the fact that those pesky humans don't always do what's best for them. Sometimes they mistakenly think they know all the facts, or maybe the facts are just too complicated

And sometimes people just decide to follow the crowd, relying on others to know what they're doing.

When too many cheap mortgages were being sold in 2007 – a lot of people didn't know what was going on. And a lot of others just followed the crowd.
Some lenders may have rationally believed that, when the crunch came, the scale of the problem would force governments to rescue them. Which was true for the banks. If not for all their customers.