

SUBJECT- PRINCIPLES OF ECONOMICS

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MICRO

ECONOMICS

* Introduction:

Economics is divided into two different categories: microeconomics and macroeconomics. microeconomics is the study of individuals and business decisions, while macroeconomics looks at the decisions of countries and governments.

- ▷ while these two branches of economics appear to be different they are actually interdependent and complement one another. many overlapping issues exist between the two fields.
- ▷ microeconomics studies individuals and business decisions, while macroeconomics analyzes the decisions made by countries and governments.
- ▷ microeconomics focuses on supply and demand, and other forces that determine price levels, making it a bottom-up approach.
- ▷ macroeconomics takes a top-down approach and looks at the economy as a whole, trying to determine its cause and nature.
- ▷ Investors can use microeconomics in their investment decisions, while macroeconomics is an analytical tool mainly used to craft economic and fiscal policy.

MICROECONOMICS

* Definition:

- Microeconomics is the study of individuals, households and firms' behaviour in decision making and allocation of resources. It generally applies to markets of goods and services and deals with individuals and economic issues.
- Microeconomics is a branch of economics that studies the behaviour of individuals and firms in making decisions regarding the allocation of scarce resources and the interactions among these individuals and firms.

* Concept of microeconomics:

- Microeconomic study deals with what choices people make, what factors influence their choices and how their decisions affect the goods markets by affecting the price, the supply and demand.
- One goal of microeconomics is to analyze the market mechanisms that establish relative price among goods and services and allocate limited resources among alternative uses.
- Microeconomics shows conditions under which free markets lead to desirable allocations.
- It also analyzes market failure, where markets fail to produce efficient results.
- While microeconomics focuses on firms and individuals, macroeconomics focuses on the sum total of economic activity, dealing with the issues of growth, inflation and unemployment and with national policies relating to these issues.

- Microeconomics also deals with the effects of economic policies (such as changing taxation levels) on microeconomic behaviour and thus on the aforementioned aspects of the economy.
- Modern macroeconomic theories have been built upon micro foundation i.e. based upon basic assumptions about micro-level behaviour.

* Micro-economic Analyst

Micro economists study the behaviour of small individual factors in an economy.

It mainly focuses on:-

- Individual consumer satisfaction
- market demand for the product of an individual producer.
- It study the equilibrium of firm and industry.

* Scope of micro-economics

- Are the resources in the country fully utilized or not?
- what should be produced & in what quantity? (Theory of value)
- The problem of selecting technique of production (Theory of production)
- How the goods and services produced are distributed? (Theory of Distribution)
- How effectively the resources are allocated? (Economics of welfare)
- whether the capacity of economy to produce goods & services is growing or is static? (theory of economic growth)

* Importance of Micro-Economic Analyst

- Allocation of resources
- The distribution of National income
- Consideration of welfare
- Importance of applied field of economics

* Limitation of Micro-Economic Analysis

- It always thinks of individual factors of production on individual consumer so it may not be always true on aggregate levels.
- Its result or conclusions are always on certain assumption.
- The aggregate analysis or the overall approach to any economic problem is beyond the reach of it.