Introduction to Micro Economics

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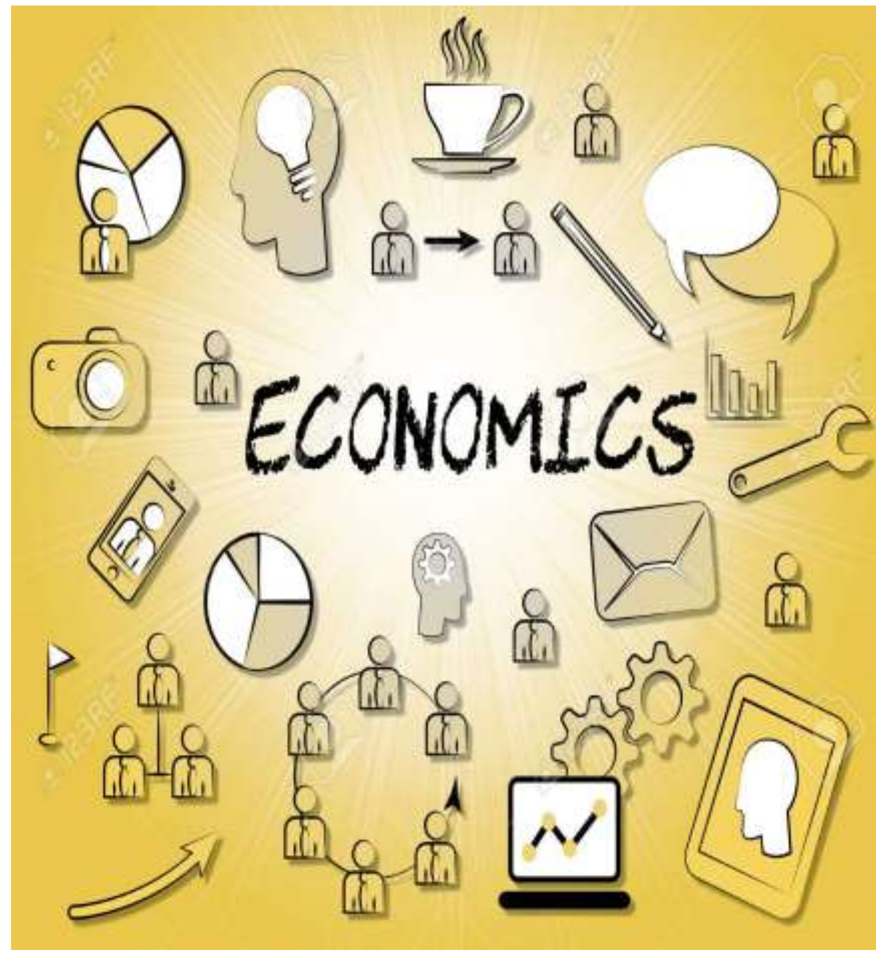
Meaning of Economics

- In its most simple and concise definition, economics is the study of how society uses its limited resources.

- Economics is a social science that deals with the production, distribution, and consumption of goods and services.



What is Micro Economics?

- Microeconomics is the study of the economic actions of individuals and small group of individuals
- Household , Investor, Firms, Industries, etc
- How and why these units makes decisions?
- It is also called price theory
- “Microeconomics studies the economic decisions making of firms and individuals in a market setting: it is the study of the economy in a small” – Roy J Ruffin
- Microeconomic studies how business firms operate under different competitive conditions, and how the combined actions of buyers and sellers determine prices in a specific market.

Importance of Micro Economics

To understand the working of the economy:

It helps us in understanding the working of a free enterprise economy. It gives us an idea about how major economic decisions are taken in a market economy.

Helpful in the efficient employment of resources:

It suggests economizing, that is how efficiently the scarce available resources can be utilized in production process in an economy.

Helps in International Trade:

Micro economics is used to explain gains from internal trade, external trade, foreign exchange, balance of payment, disequilibrium and in the determination of exchange rate.

Basis of welfare economics:

The entire structure of micro economics has been built on the basis of price theory .It suggests the conditions of efficiency and helps in improving the standard of living of population.

Tool for evaluating economic policies:

It helps the states and central government to frame economic policies like price policy, taxation policy etc. It also explains the condition of efficiency in production and consumption.

Construction and use of models:

Micro economics construct and uses simple models in order to understand the actual economic phenomenon. It uses abstract models to explain the economic phenomenon.

Factors affecting Micro Economics

Labour Decisions :

Individual businesses demand labour and this demand is heavily influenced by wages. So other things being equal as wages increases businesses demand less labour.

Productivity decisions :

Businesses will set productivity at the highest level of economic efficiency, where the production of one good or service cannot be made better off without reducing production of another.

Types of goods and services offered :

As the price of one good or service increases , businesses increase the supply of that good or service and decrease the supply of others.

Supply and Demand Decisions :

Supply can be controlled by businesses but demand increases when consumers agree to pay more for goods or services.

What is Macro Economics?

- It deals with large economic activity i.e study of economic system as a whole like total employment, national income, rate of savings and investments, aggregate consumption, economic growth etc.
- It is also called as ‘**Income Theory**’ because economic decisions relating to consumption, savings, investments etc are on the basis of national income.

Importance of Macro Economics

- To understand the working of the Economy
- Framing Economic Policies
- Study of Unemployment
- National Income
- Economic Growth
- Monetary Problems
- Business Cycles

Difference between Micro and Macro Economics

Micro Economics	Macro Economics
It is that branch of economics which deals with the economic decision-making of **individual economic agents** such as the producer, the consumer, etc.	It is that branch of economics which deals with **aggregates** and averages of the entire economy, e.g., aggregate output, national income, aggregate savings and investment, etc.
It takes into account **small components** of the whole economy.	It takes into consideration the economy of any country **as a whole**.
It deals with the process of **price determination** in case of **individual** products and factors of production.	It deals with general **price-level** in any **economy.**
It is known as **price theory**	It is also known as the **income theory**
It is concerned with the optimization **goals of individual** consumers and producers	It is concerned with the optimization of the **growth process** of the **entire economy.**

Thank you!