

Micro & Macro Economics

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Unit-4

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## **Micro & Macro Economics:**

### **Objectives:**

After the study of e-content students will be able to

- Understand the meaning and concept of Macro and Micro economics.
- Explain the Macro and Micro aspects of pricing of education.
- Differentiate between Macro and Micro analysis of economy.

### **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 course 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' behavior in decisions making and allocation of resources. It generally applies to markets of goods and services and deals with individual and economic issues.
- Microeconomics is a branch of economics that studies the behavior 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 condition 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 issue.
- Microeconomics also deals with the effects of economic policies (such as changing taxation levels) on microeconomic behavior and thus on the aforementioned aspects of the economy.
- Modern macroeconomics theories has been built upon micro foundation i.e. based upon basic assumptions about micro-level behavior.

### **Micro- economic Analysis**

Micro Economics studies the behavior 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 & 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 & services produced are distributed? (Theory of distribution)
- How effectively the resources are allocated? (Economics of welfare)
- Whether the capacity of the economy to produce goods & services is growing or is static? ( theories of economic growth)

### **Importance of Micro- Economic Analysis**

- 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 or 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.

### **Macroeconomics:**

#### **Definition:**

- Macroeconomics is a part of economic study which analyzes the economy as a whole. It is the average of the entire economy and does not study any individual unit or a firm. It studies the national income, total employment, aggregate demand and supply etc.

- Macroeconomics is the study of the performance, structure, behaviour and decision-making of an economy as a whole. It focus on the national, regional, and global scales to maximize national income and provide national economic growth.

### **Concept of Macroeconomics:**

- The term 'Macro' has been derived from a Greek word 'Macros' meaning 'large'. Thus Macro- economics is the study and analysis of an economy as a whole.
- The study of the performance, structures behavior and decision making of an economy as a whole, rather than individual markets.
- Macroeconomists focus on the national, regional and global scales
- For most macroeconomists the purpose of this discipline is to maximize national income and provide national economic growth.
- This growth further increases utility and improve standard of living for the economy's participants.

### **Macro Economics involves the study of:**

- The behaviour of an economic system as a whole
- Aggregate and average covering the entire economy
- Behaviour of large aggregators such as – total employment, national product, national income, price- levels etc.

### **Macro Economics deals with problems such as:**

- Unemployment in the country
- Inflation/ deflation
- Economic growth
- International trade
- National output

- National expenditure
- Level of saving & investment

**Scope of Macro Economics:**

The scope of Macro Economics lies in the study of analysis of the following:

- Theory of employment
- Theory of income
- Theory of price level
- Theory of growth
- Theory of distribution
- Theory of national income

**Nature of Macro Economics:**

- It is a study of national aggregates
- It studies economic growth
- It ignores individual differences between aggregates

**Importance of Macro- economic Analysis:**

- It never neglect the relationship between demand & supply as in case of micro- economic analysis.
- It always gives the complete picture about the economy as whole hence it helps to understand working of the whole economy.
- Macro- economic has increased the utility of economics.
- It can be used for the development of micro- economic theories
- It helps in formulation of economic policies.
- It studies and analyses growth and development in an economy.

**Difference between Micro Economics and Macro Economics:**

	<b>Micro Economics</b>	<b>Macro Economics</b>
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<b>Meaning</b>	it studies individuals units Of an economy	It studies the economy as a whole
<b>Fields of study</b>	It studies individual economic unit such as: a consumer, a firm, a household, an industry a commodity etc.	It studies national Aggregate such as: national income, national output, general price level, level of employment etc.
<b>Problems</b>	it deals with micro problems such as determination of: price of commodity, a factor of production, satisfaction of a consumer etc.	It deals with problems at a macro level like problems of employment, trade cycles, international trade, economic growth etc.
<b>Nature</b>	It is based on disaggregation of units. It considers individual differences between different units	It is based on aggregation of units It does not consider individual differences between aggregates
<b>Objectives</b>	Maximize utility Maximize profits Minimize costs Static analysis i.e.	Full employment Price stability Economic growth Favorable balance of payment situation
<b>Methodology</b>	Does not explain the time element Equilibrium conditions are measured at a particular period	Dynamic analysis i.e. it is based on time lags, rates of change, past and expected values of variables.

**Review Questions:**

- 1).What do you mean by macro-economics? Explain with examples.
- 2).What are the main goals of macro-economics?
- 3).What is the difference between microeconomics and macroeconomics?
- 4).What are the examples of individual economic agents?