

MICRO ECONOMICS

SUBJECT : ECONOMICS

CHAPTER NUMBER: 1

CHAPTER NAME : INTRODUCTION

CHANGING YOUR TOMORROW

Economics: Meaning, Nature and Branches of Economics

Economics is a social science that studies the behaviour patterns of human beings. The basic function of economics is :

Study how individuals, Households, Organizations, and Nations Utilize their limited resources to achieve maximum profit.

The study of economics is divided into two parts, namely

- ❖ MICROE CONOMICS AND
- ❖ MACRO ECONOMICS.

Economics: Meaning, Nature and Branches of Economics

Micro Economics is a branch of economics that examines the market behaviour of individual consumers and organizations.

It focuses on the

- demand and supply,
- pricing, and output of individual organizations

Microeconomics is also called **Price Theory.**

Macro Economics analyzes the economy as a whole & It deals with issues related to

- National income,
- employment pattern,
- inflation, recession, and
- economic growth.

Macro Economics is also called **theory of Income and employment.**

DIFFERENCE BETWEEN MICRO AND MACRO ECONOMICS

Differences	Microeconomics	Macroeconomics
Definition	Microeconomics is the study of economic actions of individuals and small groups of individuals.	Macroeconomics studies the economy as a whole and not a single unit but combination of all.
Concern with	Particular households, firms and industries	National income, general price levels, national output, unemployment and poverty
Objective	On demand side is to maximize utility whereas on the supply side is to minimize profits at minimum cost	Full employment, price stability, economic growth and favourable balance of payments.
Basis	Price mechanism which operates with the help of demand and supply forces	National income, output and employment which are determined by aggregate demand and aggregate supply
Assumptions	Rational behaviour of individuals	Aggregate volume of output of an economy, the extent to which its resources are employed
Limitations	Existence of full employment	Involvement of 'Fallacy of Composition' which doesn't prove true

INTERDEPENDENCE OF MICRO AND MACRO ECONOMICS

Microeconomics depends on Macroeconomics

1. Law of demand came into existence from the analysis of the behaviour of a group(Aggregate) of people.
2. Price of a commodity is influenced by the general price level prevailing in the economy.

Macroeconomics depends on Microeconomics

1. National income of country is nothing but the sum total of incomes of individual units of the country.
2. Aggregate demand depends on demean of individual house-holds of the economy.

CENTRAL PROBLEM OF AN ECONOMY

1. What to produce

1. How to Produce

2. For Whom to produce

These three problems are studied under the problem of **'Allocation of resources'**

Allocation of resources refers to the problem of assigning the scarce resources in such a manner so that maximum wants of the society are fulfilled

CENTRAL PROBLEM OF AN ECONOMY :

What to Produce ?

The problem of What to produce has two aspects :

- a. What possible commodities to produce : Consumer goods(Rice, wheat , clothes etc.) OR Capital Goods (Machinery , Equipment etc.)
- b. How much to produce : After deciding the goods to be produced, economy has to decide the quantities of each commodity.

How much to Produce ?

This refers to selection of technique to be used for production of goods and services.

- a. Labour intensive Technique (More Labour and less capital)
- b. Capital intensive Technique (More Capital less labour)

CENTRAL PROBLEM OF AN ECONOMY

For Whom to Produce?

The problem relates to the distribution of produced goods and services among the individuals within the economy i.e. Selection of the category of people who will ultimately consume the goods i.e.

Whether to produce Goods for more poor and less rich

OR

More reach and less poor

The Problems can be categorised under two main heads :

- a. Personal Distribution : Among different Groups of people
- b. Functional Distribution : It involves deciding the share of different factors of production

THANKING YOU

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Website: www.odmegroup.org
Email: info@odmps.org

Toll Free: **1800 120 2316**
Sishu Vihar, Infocity Road, Patia, Bhubaneswar- 751024