

Theme № 1. Introduction to Microeconomics

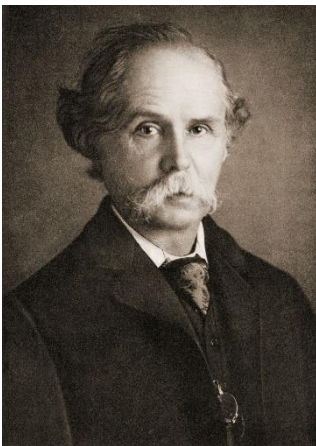
Microeconomics and macroeconomics / Differences:

Economics as a science consists of two disciplines, that is of microeconomics and macroeconomics.

Microeconomics is the branch of economics that studies individual producers, consumers, or markets. Microeconomics also studies government activities such as regulations and how taxes affect individual markets. Besides microeconomics tries to understand what factors affect the prices, wages and earnings.

Macroeconomics is the branch of economics that studies the economy as a whole. It tries to understand the picture as a whole. In particular, it studies the overall values of output, growth, unemployment, inflation, and trade balance.

The founder of microeconomics:



Alfred Marshall

Microeconomics focuses on issues that affect individuals and companies. Alfred Marshall is considered by many historians of economics to be the father of Microeconomics.

Info: Alfred Marshall was an English economist, who was one of the most influential economists of his time. His book «**Principles of Economics**» was the dominant economic textbook in England for many years. It brings the ideas of supply and demand, marginal utility, and costs of production into a coherent whole.

Importance of microeconomics:

Microeconomics explains the working of a capitalist economy where individual units are free to take their own decision. It describes how, in a free enterprise economy, individual units attain equilibrium position. It also helps the government in formulating correct price policies.

Microeconomic concepts:

Some main concepts of microeconomics:

- ❖ marginal utility and demand
- ❖ diminishing returns and supply
- ❖ elasticity of demand
- ❖ elasticity of supply
- ❖ market structures (excluding perfect competition and monopoly)
- ❖ role of prices and profits in determining resource allocation.

Basic principles of microeconomics:

Microeconomics uses a set of fundamental principles to make predictions about how individuals behave in certain situations involving economic or financial transactions. These principles include the law of supply and demand, opportunity costs, and utility maximization. Microeconomics also applies to businesses.

* Opportunity cost is calculated by applying the following formula:

Opportunity Cost = Return on Most Profitable Investment Choice - Return on Investment Chosen to Pursue

Opportunity Cost Formula



Opportunity Cost = Total Revenue – Economic Profit

Opportunity Cost = $\frac{\text{What One Sacrifice}}{\text{What One Gain}}$

There are 10 principles of microeconomics:

Principle 1

People face tradeoffs.

Principle 2

The cost of something is what you give up to get it.

Principle 3

Rational people think at the margin.

What is an example of thinking at the margin? Choosing to work an extra hour of overtime is an example of thinking at the margin.

Principle 4

People respond to incentives.

Principle 5

Trade can make everyone better off.

Principle 6

Markets are usually a good way to organize economic activity

Principle 7

Government can sometimes improve market outcomes.

Principle 8

A country's standard of living depends on its ability to produce goods and services.

Principle 9

Prices rise when the government prints too much money

Principle 10

Society faces a short-run tradeoff between inflation and unemployment.

Tools of microeconomics - Microeconomic theory:

- ❖ Consumer demand theory
- ❖ Production theory
- ❖ Cost-of-production theory of value
- ❖ Opportunity cost
- ❖ Price Theory
- ❖ Supply and demand
- ❖ Perfect competition
- ❖ Imperfect competition

Types of microeconomics:

Based upon the equilibrium of microeconomics in the different situation and relationship between time and different economic models, the microeconomics is divided into three different types, namely Micro statics, Comparative Micro statics and Micro Dynamics.

Objectives of microeconomics:

The objective of microeconomic theory is to analyze how individual decision-makers, both consumers and producers, behave in a variety of economic environments.

Why do we study microeconomics?

Microeconomics is of great help when it comes to studying the conditions of economic welfare. This branch of economics helps us understand the level of satisfaction of the people in the economy. It also helps economists identify the allocation of resources within the economy.

What are the two important goals of microeconomics?

The major goals of microeconomic policy are efficiency, equity and growth. Economic growth is often treated as a macroeconomic issue, but it is closely related to the micro-behaviour of the economy and the functioning of markets.

Why is microeconomics important in business?

Microeconomics helps businesses understand why consumers choose to spend their money and on what. The science behind the way consumers and even businesses purchase can influence what is sold, how and why. For most consumers, money is a limited resource. To spend money, they make choices about wants versus needs.

What is the difference between macro and micro economics?

The main difference is that micro looks at small segments and macro looks at the whole economy. But, there are other differences. Classical economic analysis assumes that markets return to equilibrium ($S=D$). For a long time, it was assumed that the macro economy behaved in the same way as micro economic analysis.

Microeconomics is the study of individuals and business decisions, while macroeconomics looks at the decisions of countries and governments. Though these two branches of economics appear different, they are actually interdependent and complement one another.

What is the role of microeconomics?

Microeconomics involves studying the concepts and ideas that establish supply and demand in a particular market and the way that consumers and businesses alike prioritize their spending. A major role of microeconomics is to recognize the way that prices for goods and services are established in a given market.