



# **I**DOL

## Institute of Distance and Online Learning



**ENHANCE YOUR QUALIFICATION,  
ADVANCE YOUR CAREER.**

# **B.A.English**

## *Microeconomics-I*

- Course Code:           BAQ108
- Semester:                First
- e-Lesson:                1
- SLM Unit:                1



Microeconomics -I

# MICRO ECONOMICS

## OBJECTIVES

- Student will be able to understand the concept of Economics.
- Student will be able to understand the concept of micro economics
- Student will be able to do Critical analysis between micro and macro .
- Student will be able to articulate the application of micro econonics.

## INTRODUCTION

- In this unit we are going to learn about the concept of Micro economics
- Under this you will be able to understand economics as art and science .
- Students will be able to distinguish between micro and macro economics.

# TOPICS TO BE COVERED

- > Economics
- > Micro Economics
- > Nature and Scope of Micro economics.
- > Distinguish between Micro and Macro Economics



# MEANING OF MICRO ECONOMICS

5

- Economics is the study of those activities of human beings, which are concerned, with the satisfaction of unlimited wants by using the limited resources. Micro means the millionth part.
- The term micro has been taken from the Greek word “**mikros**” meaning small. Under microeconomics we study the individual units like a consumer, a firm, an industry, price determination of a particular commodity etc.
- The main objective of microeconomics is to study the principles, policies and the problems relating to the optimum allocation of resources. It explains us how through the market mechanism goods and services produced in the economy are distributed.

## Microeconomics



# MEANING OF MICRO ECONOMICS

- In Simple terms we can say that Economics is the study of how individuals and societies choose to use the scarce resources that nature and previous generations have provided. The key word in this definition is *choose*.
- Economics is a behavioral, or social, science. In large measure, it is the study of how people make choices. The choices that people make, when added up, translate into societal choices.



# Definition of Micro Economics

- Micro economics is defined as the study of behavior of individual decision making units such as consumer, resource owners and firms. It is also known as Price Theory since its major subject matter deals with the determination of price of commodities and factors.
- It solves the three central problems of an economy i.e what, how and for whom to produce.



# NATURE AND SCOPE OF MICRO ECONOMICS

8

- ❖ In the nature of economics we may consider whether it is a science or an art.
- ❖ Science not only means the collection of facts but it also means that the facts are arranged in such a manner that they speak for themselves. It means that some laws are discovered through these facts. Thus science is a systematic body of knowledge concerning the relationship between causes and effects of a particular phenomenon.

## Characteristics of a science

- First of all the facts are observed. E.g. when price rise the demand contracts.
- The facts in this step are properly classified. Like if price falls how much the demand has fallen.
- After the compilation of facts and having knowledge about the magnitude of a problem a law is framed keeping onto consideration the cause and effect of a fact. E.g. Law of demand
- The final feature of science is by applying the scientific laws to real life. It is verified whether they are valid or not.

Thus from the above discussion it could be concluded that economics is a science. But some economists believe that it is not an exact science.

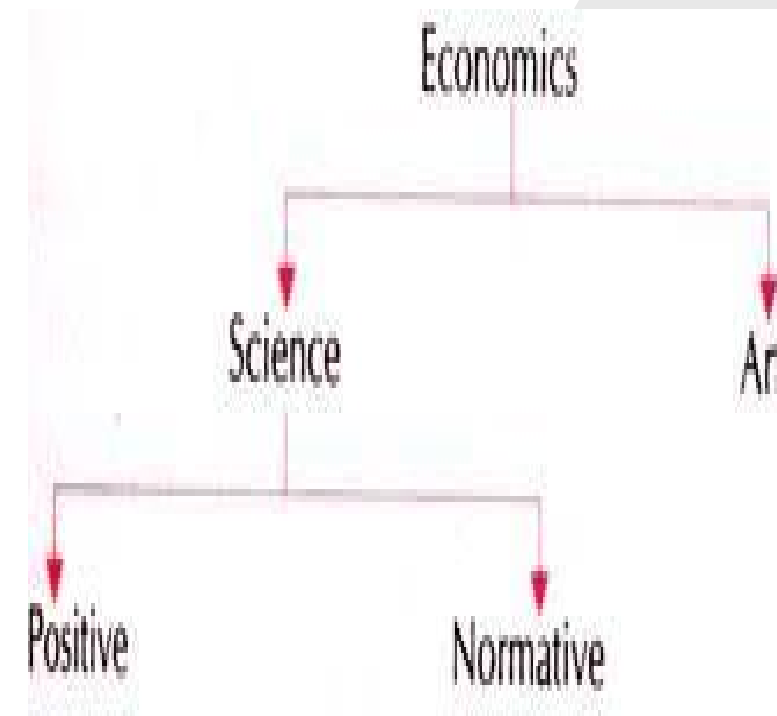
# WHETHER IT'S A SOCIAL SCIENCE OR A NATURAL SCIENCE

## Arguments in favour of social science:

- Economics is a systematic study. It is the study of the interrelated activities like production consumption and exchange of wealth.
- Laws of economics show a cause and effect relationship between them
- Laws of economics are based on real experiences of life.

## Arguments against economics as a natural law

- The laws of economics are not the exact laws. Like law of economics does not operate if there is a change in the income of the person or a change in price of substitute goods.
- Economics laws are far from universal applicability. These laws cannot be applied in all situations and at all the times.
- The laws of economics cannot be verified in the laboratories. In the exceptional cases even the information or the results obtained through the application can prove to be futile Thus economics is not a natural science. It is a social science.



# ECONOMICS AS A POSITIVE SCIENCE

Positive science is that science which studies an accurate and true description of events as they happen. Thus it deals with what, how and why. Normative science is suggestive in nature. Normative science tells us what ought to be.

## Economics as a positive science

- Positive science is logical whereas normative science is emotional. Therefore it is more exact it is based on the logic.
- If economics studies only the realities of the real world then the chances of the disagreement are less, as the case would be if it studies both.
- The economists cannot make the rational judgments if they try to analyze both what is and what ought to be.

# ECONOMICS AS A NORMATIVE SCIENCE

11

1. Economics would offer more meaningful conclusions if it gives suggestions too long with the facts.
2. Economics will be more useful if it is fruit bearing too along with the light bearing. Most of the people study economics for the fruits and not for the light merely.
- 3 if the economist synchronizes the analysis of economic problems with concrete economic policies he would save time. Else it would be difficult if one person finds the solutions and the other tries to justify those solutions.

Thus the argument can be put to an end only by saying that it is both the positive as well as a normative science

# ECONOMICS AS AN ART

12

Many economists like Marshall, Pigou etc. believe that economics is an art also besides being a science

## **Economics as an art**

- Economics offer a solution to the problems of human beings. It tells us how we can make the judicious use of our resources.
- It is through the art that we can verify the economic laws. For example the law of demand
- The doubts can be removed by dividing the economics into science as well as an art.

## **Arguments against art**

- Science and art are different. If economics is science it cannot be art and if it is an art it cannot be a science.
- Economic problems are influenced by social and political nature. Therefore economics cannot be considered from the economic point of view only.

# SCOPE OF MICRO ECONOMICS

## 1) Micro-economics studies the allocation of resources.

- It assumes full employment of resources.
- It assumes the total quantity of resources as given being (fixed) and explains how the resources are allocated among production of different goods.
- It determines what to produce, how to produce. Theory of product pricing :The allocation of resources in production of different goods depends on the prices of goods. It determines what to produced, how to produced.

# SCOPE OF MICRO ECONOMICS

## 2) Theory of product pricing:

The allocation of resources in production of different goods depends on the prices of goods.

The prices of a good is determines by demand for and supply. The demand for a good depends the tastes of the consumer, prices of substitutes, availability of substitutes execution of consumer etc. On the other hand, the supply of a good depends on the behavior of the entrepreneur and the cost condition. Therefore, the theories of demand and product are also studies under product pricing.

## 3) Theory of factor pricing:

The determination of the prices of factors of production is also studied under micro-economics, which is termed as "theory of Distribution". It studies the determines of prices of different factors like land, labour ,capital and organization. In other words, it studies how rent, wages, interest and profit are determined.

# SCOPE OF MICRO ECONOMICS

## 4) Theory of economics welfare:

The theory of economic welfare is an important component of micro-economics theory. The theory of economic welfare studies about the economic efficiency. The economic efficiency here refers to the allocation of resources so as to maximize people's welfare. The efficiency in production, distribution and consumption are needed for overall economic efficiency.

# Microeconomics and Macroeconomics

- Microeconomics: The branch of economics that examines the functioning of individual industries and the behavior of individual decision-making units—that is, firms and households.
- Macroeconomics: The branch of economics that examines the economic behavior of aggregates— income, employment, output, and so on—on a national scale.
- Microeconomics looks at the individual unit—the household, the firm, the industry. It sees and examines the “trees.”
- Macroeconomics looks at the whole, the aggregate. It sees and analyzes the “forest.”

# MICROECONOMICS AND MACROECONOMICS

## Examples of Microeconomic and Macroeconomic Concerns

<b>Divisions of Economics</b>	<b>Production</b>	<b>Prices</b>	<b>Income</b>	<b>Employment</b>
<b>Microeconomics</b>	<i>Production/output in individual industries and businesses</i>  How much steel How much office space How many cars	<i>Price of individual goods and services</i>  Price of medical care Price of gasoline Food prices Apartment rents	<i>Distribution of income and wealth</i>  Wages in the auto industry Minimum wage Executive salaries Poverty	<i>Employment by individual businesses and industries</i>  Jobs in the steel industry Number of employees in a firm Number of accountants
<b>Macroeconomics</b>	<i>National production/output</i>  Total industrial output Gross domestic product Growth of output	<i>Aggregate price level</i>  Consumer prices Producer prices Rate of inflation	<i>National income</i>  Total wages and salaries Total corporate profits	<i>Employment and unemployment in the economy</i>  Total number of jobs Unemployment rate

# APPLICATION OF MICRO ECONOMICS

Microeconomics is one of the most important part of economics. It has both theoretical and practical. The analysis of microeconomics has great importance in the fields such as production, pricing, social welfare, optimum allocation of resources etc. Microeconomics is also used in making business decision.

- In present world the main problem of every nation is the efficient allocation of resources among the competitive markets. In this way, microeconomics helps in proper allocation of resources and economic growth with stability.
- Microeconomics uses certain principles to explain how individuals and businesses make decisions. One of the basic principles of microeconomics is that individuals make decisions to maximize their satisfaction.
- Microeconomics used for the study of a business unit, but not the economy as a whole is known as managerial economics. The various tools used in microeconomics like cost and price determination, at an individual level becomes the foundation of managerial economics.

# Multiple Choice Questions

1. The term micro has been taken from the Greek word “\_\_\_\_\_” meaning small.
  - (a) Mik
  - (b) Small
  - (c) Mikros
  - (d) Micros
2. The branch of economic theory, that deals with the problem of allocation of resources is :
  - (a) Micro Economics
  - (b) Macro Economics
  - (c) Econometrics
  - (d) None of these
3. Microeconomics deals with prices and production in \_\_\_\_\_ markets and the interaction between different markets .
  - (a) Single Market.
  - (b) Double Market.
  - (c ) Both
  - ( d) None

**Answers: 1.(c ) 2.(a) 3.(a)**

# Summary

- ❖ **Economics** is the study of those activities of human beings, which are concerned, with the satisfaction of unlimited wants by using the limited resources
- ❖ **Microeconomics**-is defined as the study of behavior of individual decision making units such as consumer, resource owners and firms.
- ❖ **Macro economics**: Study of the entire economy.
- ❖ **Micro economics**: Study of firms and markets, individual units.
- ❖ **APPLICATION OF MICRO ECONOMICS**-helps in proper allocation of resources and economic growth with stability, explain how individuals and businesses make decisions, used for the study of a business unit.

# Frequently Asked Questions

## Q1. Define Micro economics?

**Ans:** Micro economics is defined as the study of behavior of individual decision making units such as consumer, resource owners and firms. It is also known as Price Theory since its major subject matter deals with the determination of price of commodities and factors. It solves the three central problems of an economy i.e what, how and for whom to produce.

## Q2. Discuss the subject matter of economics.

**Ans:-** The subject matter of economics is sub-divided into two core branches, Micro Economics and Macro Economics. This division came into existence only after 1930 as per the suggestion by Ragnar Frisch. Refer SLM page no

## Q3. Distinguish Between Micro and Macro economics?

**Ans:** Microeconomics: The branch of economics that examines the functioning of individual industries and the behavior of individual decision-making units—that is, firms and households. Macroeconomics: The branch of economics that examines the economic behavior of aggregates—income, employment, output, and so on—on a national scale

# REFERENCES

1. Ahuja, H.L.(1999). *Advanced Economic Theory*. New Delhi: S.Chand&Co.
2. Chopra,P.N.(1998). *Micro Economic Theory and Welfare Economics*. New Delhi: Kalyani Publishers.
3. Chopra,P.N.(2006). *Advanced Economic Theory*. New Delhi: Kalyani Publishers.
4. Lekhi, R.K., Walia, H.S. & Talwar,S.J.(2003).*Micro Economics*. New Delhi: Kalyani Publishers.
5. Lipsey,R.G. & Chrystal, K.A.(2004). *Economics*. New Delhi: Oxford University Press.
6. Mandal,R.K.(2007). *Micro Economics Theory*. New Delhi: Atlantic Publishers.
7. Ray, N.C.(1980). *An introduction to Micro Economics*. New Delhi: The Macmillan Company of India.
8. Salvatore,D. (2003). *Micro Economics: Theory & Applications*. New York: Oxford University Press.
9. Singh,M. (1971). *MangSidhant Ate Mishrat Arth-VivsthaVich Arthik Ganana*. Patiala: Punjabi University.
10. Vohra, P.& Mehta,R. (2007). *Micro Economics*. New Delhi: Commonwealth Publishers.



# THANK YOU

For queries  
Email: [helpdesk@cuidol.in](mailto:helpdesk@cuidol.in)