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Micro and Macro Economics

Introduction

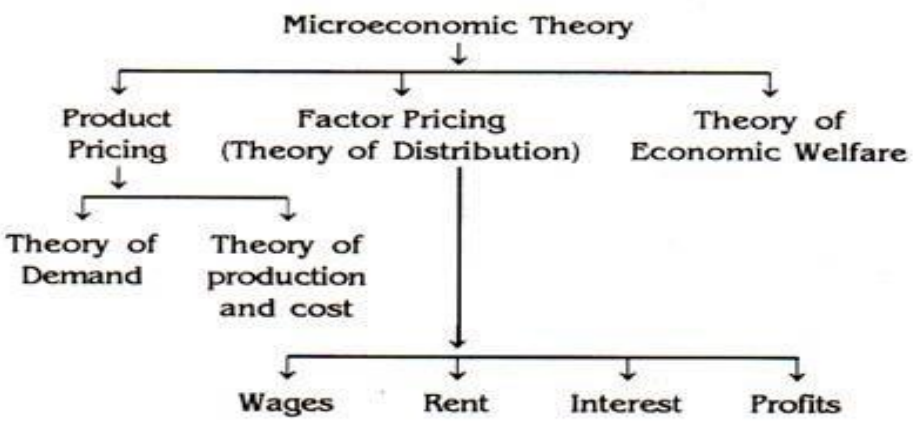
Economics is the study of choice. It makes a choice between unlimited wants and limited means. Men and society have to make choices to fulfil their wants. Men have to choose to satisfy their wants and society has to choose as to what to produce and in what quantity and how to distribute it among the different individuals. This problem of choice for the men and society lead us to study economics in 2 parts: Micro and Macro Economics.

Micro Economics

The term micro economics is derived from the Greek word *'Mikros'* meaning small. Micro economics studies an individual or a firm. It studies the smallest unit of the economy.

According to K.E.Boulding, "Microeconomics is the study of particular firms, particular households, individual prices, wages, incomes, individual industries, particular commodities".

Subject Matter of Micro Economics



Commodity Pricing

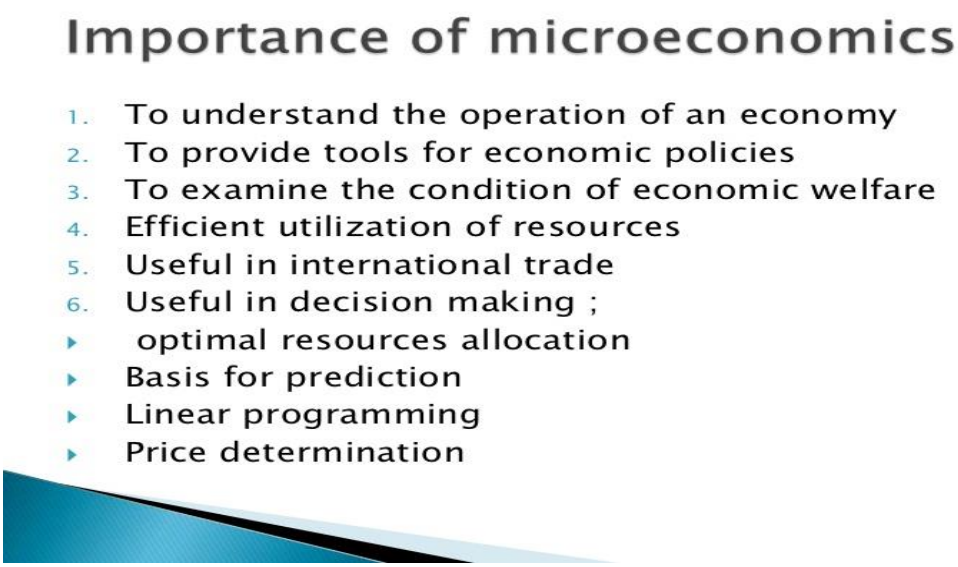
The basic concept behind micro economics is the commodity pricing. It looks into the demand and supply from individual perspective and tries to reach the equilibrium position with the interaction between the two. On the demand side we study the law of demand which is the one of the basic concepts of economics. We also study about the law of supply and with the interaction of the two the consumer reaches the equilibrium. Elasticity of demand and supply is also one of the basic concept of economics.

Factor Pricing

The factors engaged in production process need to be paid remuneration and economics find out how. There are basically four factors of production: land, labour, capital and entrepreneur. Land is paid rent, labour is paid wages, capital is paid interest and entrepreneurs are paid profits. Factor pricing helps the firm to decide how a piece of land or a worker is paid for his participation in the work.

Theory of Economic Welfare

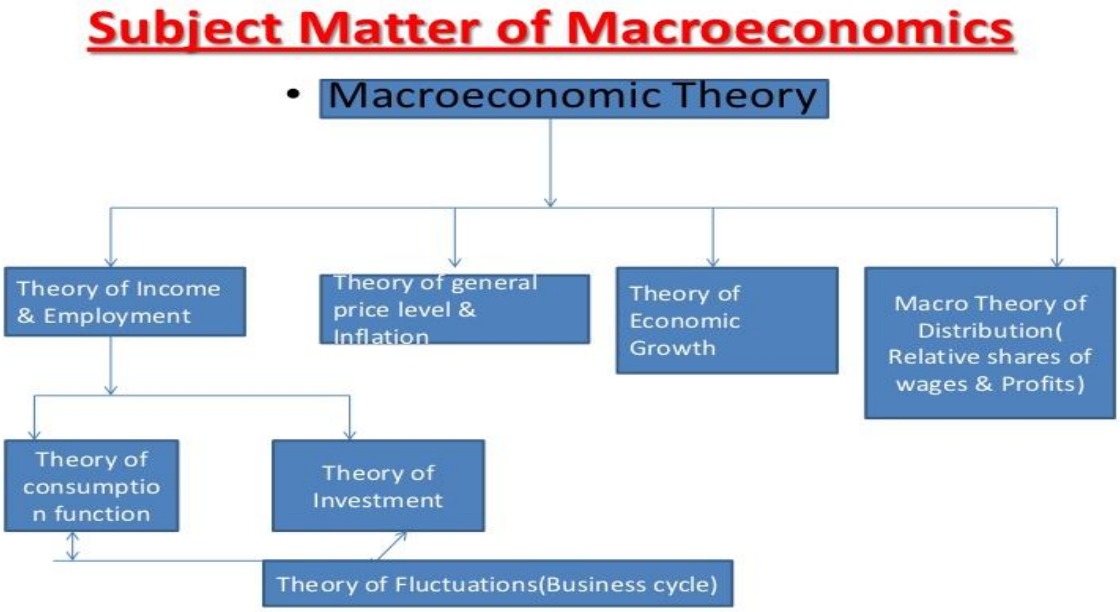
Economic welfare guides the government in taking key policy decisions. It decides as to whether a policy should be implemented or not by weighing it under the parameters of economic welfare. If a policy decision benefit someone but harm others then should that policy decision be taken or not is decided by the economic welfare concept.



Macroeconomics

The word is derived from the Greek word '*Makros'* which means large. It studies the economy as a whole. It studies in aggregates. It seeks to solve problem for the whole of the economy.

K.E.Boulding, "Macroeconomics deals not with individual quantities as such but with aggregates of these quantities; not with individual incomes but with national income; not with individual prices but with price levels; not with individual outputs but with the national output."



Theory of Income and Employment

The theory of income and employment determines the optimum level in the economy taking into consideration aggregate demand and aggregate supply function. It depends upong consumption function and investment function. Any divergence between the two leads to fluctuations in the business cycle.

Theory of Price Level and Inflation

The general level of price level at which economy will function smoothly is determined by the theory of price level. How much is the inflation rate and how is it affecting the economy

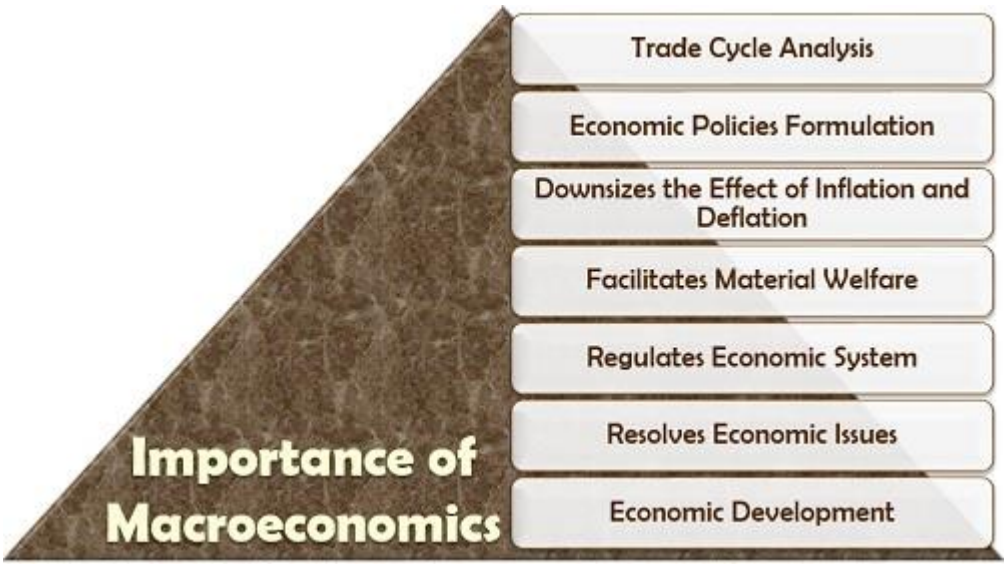
is all decided by the macro economics. Too much inflation or deflation is harmful for the economy. The theory suggests measure to control them.

Theory of Economic Growth

The theory of economic growth explains the growth rate which is optimum for the economy of any country. Any divergence from the optimum growth rate leads to problems of inflation or deflation and can also lead to deep economic problems of poverty and unemployment. The theory suggests ways in which it can be checked.

Macro Theory of Distribution

Macro economics deals with the overall distribution of wages and profits for a nation as a whole. It seeks to find out ways in which overall distribution is affected so that balance is maintained in the economy.



Differences Between Micro and Macro Economics

Micro economics	Macro economics
It deals with the decision making of single economic variables such as the demand, price, consumer, etc.	It deals with averages and aggregates of the entire economy such as national income, aggregate output, aggregate savings etc.
It is narrow in scope and interprets the small constituents of the entire economy.	It has a wide scope and interprets the economy of a country as a whole.
It is also known as the price theory because it explains the process of economic resources allocation on the foundation of relative prices of several goods and services.	It is also known as the income theory because it explains the changing levels of national income of an economy during a period of time.
It deals with the flow of various factors of production from a single owner to a single user of those resources.	It deals with the circular flow of income and expenditure between different sectors of the economy.
It helps in developing policies appropriate resource distribution at firm level.	It helps in developing policies appropriate resource distribution at economy level such as inflation, unemployment level etc.