

A.A.V. PATEL JUNIOR COLLEGE

EXCELLENCE PROGRAM SYJC COMMERCE

SUB: ECONOMICS

CHP 01: INTRODUCTION TO MICRO ECONOMICS

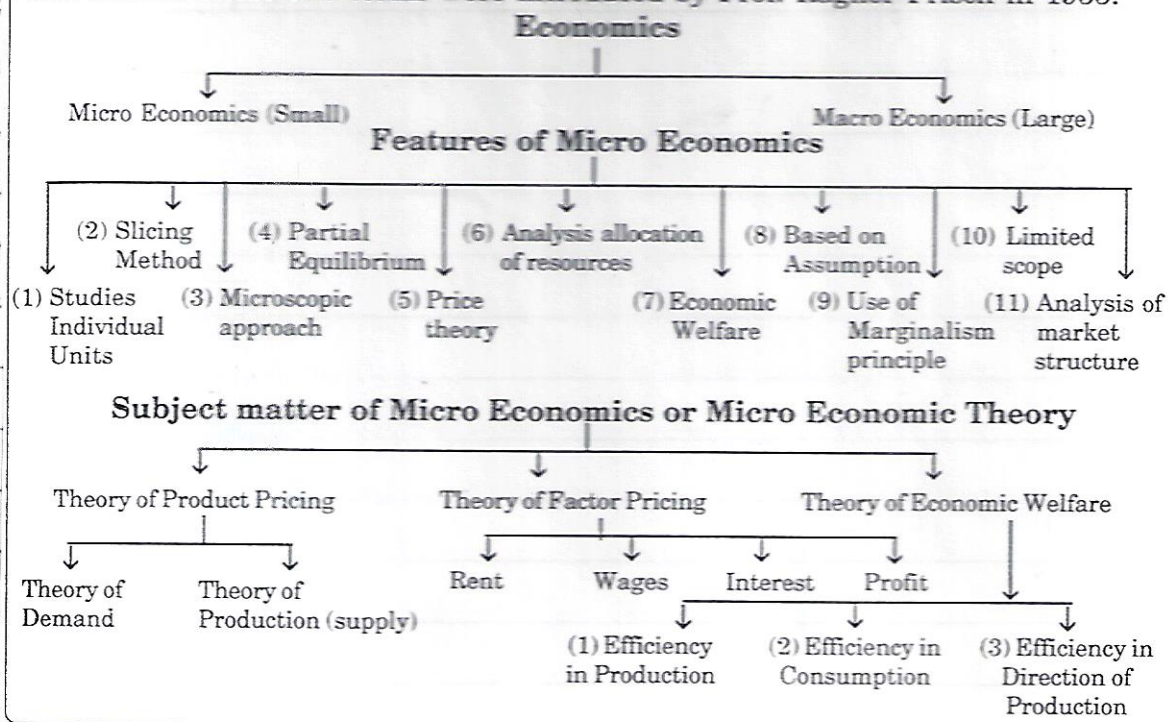
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SYNOPSIS

MEMORY CHART

The study of Economics is divided by the economist into two parts, viz; Micro and Macro. These two terms were introduced by Prof. Ragner Frisch in 1933.



* DEFINITION:

- i) MICRO ECONOMICS: Micro economics is concerned with the study of individual units and small groups like a consumer, a firm, a market, an industry etc. The term micro is derived from Greek word 'MIKROS' meaning small. Thus micro economics is a study of the economic behaviour of individual units of an economy.
In the words of KENNETH BOULDING, "Micro Economics is the study of particular firms, particular households, individual prices, wages, incomes, individual industries, particular commodities."
- ii) SLICING METHOD: Slicing Method is an approach used in micro economics analysis. Under this method the economy is split up into small units for intensive analysis. Thus it separates individual unit from totality. This approach enables independent analysis of a particular unit. It ignores interrelationship between variables. It helps to study a particular variable separately.
- iii) RESOURCE ALLOCATION: Micro Economics explain the allocation of resources between production of various goods. It also tells us how the relative prices of commodities & factors determine the allocation of resources. Efficient allocation of resources is determined by the following issues:
a) what goods & how much quantity of those goods

to be produced.

b) How they shall be produced.

c) How they shall be distributed among people.

d) How efficiently they are distributed.

iv) PARTIAL EQUILIBRIUM: An equilibrium which is related to a single variable or part of the economy may be called partial equilibrium or particular equilibrium. Prof. Alfred Marshall introduced partial equilibrium. It is useful to analyse a particular aspect of a problem at a particular time.

Under this equilibrium, the single variable is considered as a separate unit. It has no inter relationship with other variables of the economy. In other words it keeps other things constant (*ceteris paribus*).

v) ECONOMIC EFFICIENCY: Economic efficiency explains how conditions of efficiency can be achieved in consumption & production. It says that the system of production & distribution should be done by efficient to provide maximum satisfaction. It suggests policies to avoid waste & inefficiency. Economic efficiency involves following three efficiencies.

a) Efficiency in production involving efficient allocation of resources to assure maximum production.

b) Efficiency of distribution providing maximum satisfaction by distributing given goods.

c) Allocative efficiency involving allocation of only

these goods & services which are most desired by people.

vi) INDIVIDUAL ECONOMIC UNIT: An Individual economic unit is a small unit or part of the economy which is separated from totality. It is analysed as separate unit. It has no interrelationship with other units of the economy. It is independent unit. Micro Economics or economic theory studies the economic behaviour of individual economic units of an economy. It provides microscoping view of individual units like individual consumer, firm, market etc.

* DISTINGUISH BETWEEN:

| 1. MICRO ECONOMICS | MACRO ECONOMICS. |
|---|---|
| <u>1. MEANING:</u> | |
| Micro Economics deals with the economic behaviour of small units like particular firm, particular household, individual prices, wages, etc. | Macro economics deals with economic behaviour of large units or entire economy such as National Income, aggregate demand, aggregate supply etc. |
| <u>2. METHODOLOGY:</u> | |
| It studies each unit in depth by using slicing Method. | It studies the economy as a whole using lumping Method. |
| <u>3. PARTIAL / GENERAL:</u> | |
| It is based on partial Equilibrium analysis, based on assumptions | It is based on a general Equilibrium analysis. |

2. PARTIAL EQUILIBRIUM

GENERAL EQUILIBRIUM.

1. MEANING:

An equilibrium which is related to a single variable or few variables may be called partial equilibrium or particular equilibrium.

An equilibrium which is related to numerous variables or the economy as a whole may be called as general equilibrium.

2. STUDY:

Partial Equilibrium studies the equilibrium of a consumer, a firm, an industry or a market.

It deals with the equilibrium position of the economy as a whole.

3. NATURE:

It deals with one or two variables at a time. So it is a simple method. It is independent.

It deals with all the variables of the Economic System simultaneously. So it is sophisticated. There is interdependence.

4. VIEW:

It is regarded as a WORM'S EYE VIEW.

It is a BIRD'S EYE VIEW.

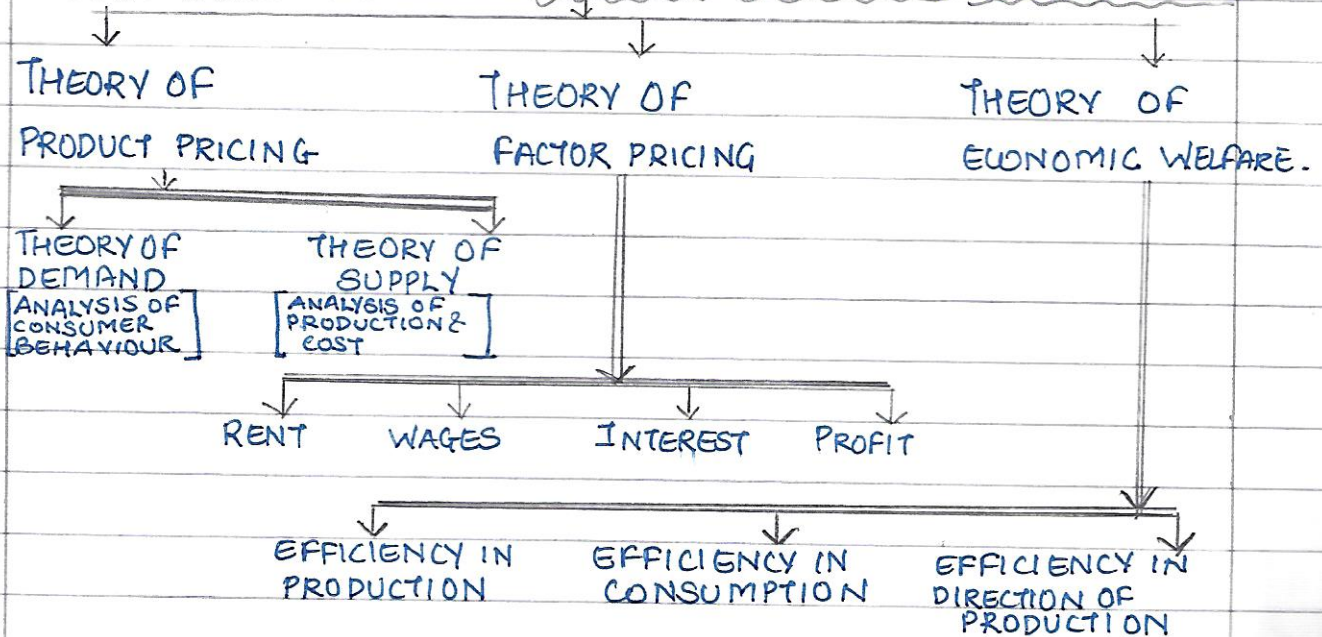
* FEATURES OF MICRO ECONOMICS:

→ Meaning & Definition:

→ Features:

- | | |
|-------------------------------|---|
| (i) Study of Individual Units | vi) Marginal Analysis |
| ii) Price theory. | vii) Based on Certain Assumptions. |
| iii) Slicing Method. | viii) Limited Scope. |
| iv) Partial Equilibrium. | ix) Analysis of Market Structure. |
| v) Microscopic Approach. | x) Resource allocation & Economic Efficiency. |

* SCOPE AND SUBJECT MATTER OF MICRO ECONOMICS:



* IMPORTANCE AND USEFULNESS OF MICRO ECONOMICS:

- i To understand the working of free market economy.
- ii Explains price determination & allocation of resources.
- iii It helps businessman in decision making.
- iv Useful to government (v) Model Building
- vi Helpful in international trade & public finance.
- vii Basis of welfare economics.