A. A. V. PATEL JUNIOR COLLEGE

EXCELLENCE PROGRAM SYJC COMMERCE

SUB: ECONOMICS

CHP 01: INTRODUCTION TO MICRO ECONOMICS

WEIGHTAGE: WITHOUT OPTION : 04 m

WITH OPTION : 08 m.

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.

Economics

- Micro Economics (Small)
- Macro Economics (Large)

Features of Micro Economics

(1) Studies Individual Units
(2) Slicing Method
(3) Microscopic approach
(4) Partial Equilibrium
(5) Price theory
(6) Analysis allocation of resources
(7) Economic Welfare
(8) Based on Assumption
(9) Use of Marginalism principle
(10) Limited scope
(11) Analysis of market structure

Subject matter of Micro Economics or Micro Economic Theory

- Theory of Product Pricing
  - Theory of Demand
  - Theory of Production (supply)
- Theory of Factor Pricing
  - Rent
  - Wages
  - Interest
  - Profit
- Theory of Economic Welfare
  - (1) Efficiency in Production
  - (2) Efficiency in Consumption
  - (3) Efficiency in Direction of Production

SUB: ECONOMICS.

STD: SYJC

TOPIC: INTRODUCTION TO MICRO ECONOMICS.

* DEFINITION:

1. 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, particulars 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 analysation. 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 otherwords 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 [illegible]

those 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 seperated 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.
1. MEANING:	
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.
2. METHODOLOGY:	
It studies each unit in depth by using slicing Method.	It studies the economy as a whole using lumping Method.
3. PARTIAL / GENERAL:	
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 inter dependence.
4. VIEW:	
It is regarded as a WORM'S EYE VIEW.	It is a BIRD'S EYE VIEW.

* FEATURES OF MICRO ECONOMICS:

→ Meaning & Definitation :

→ Features :

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

* SCOPE AND SUBJECT MATTER OF MICRO ECONOMICS:

- THEORY OF PRODUCT PRICING
  - THEORY OF DEMAND [ANALYSIS OF CONSUMER BEHAVIOUR]
  - THEORY OF SUPPLY [ANALYSIS OF PRODUCTION & COST]
- THEORY OF FACTOR PRICING
  - RENT
  - WAGES
  - INTEREST
  - PROFIT
- THEORY OF ECONOMIC WELFARE.
  - EFFICIENCY IN PRODUCTION
  - EFFICIENCY IN CONSUMPTION
  - EFFICIENCY IN DIRECTION OF PRODUCTION

* 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.