E -CONTENT-SERIES I N MICRO ECONOMICS
by
PROF. MADHURIMA LALL
DEPTT. OF APPLIED ECONOMICS, UNIVERSITY OF LUCKNOW

<u>MICRO AND MACRO ECONOMICS</u>

Economics is studied under two heads_

1) **Micro economics analysis**
2) **Macro economics analysis**

Micro economics was the basis of study in ancient times because they had never thought of approaching the macro aspect with the changing conditions, the economic problems took a new turn resulting in the change in approach of economic analysis. Thus more importance was now given to Microanalysis than Macro analysis. Now a days both macro and microanalysis are quite popular. But the credit of using these words goes to Professor RAGNAR FRISCH of Oslo University. Both of these terms are explained in detail below.

MICRO ECONOMICS

Classic economists have established and developed micro economics. The word óMicroô has been derived from a Greek word óMikrosô. It means micro or small. As the name suggests Micro Economics studies theories related with individual produces, individual firms and individual industries. Classical economists have been important decision or Micro Economics. Adam smith himself has accepted the fact that an individual works only by inducing the feeling of selfishness. This is an example of his recognition of micro economics .Even the neo classical economist Marshal has made an individual material welfare as the basis of subject matter of economics. In fact classical economists had studied macro economics and not separately.

The fundamental tendencies of Micro Economics can be classified by following definitions.

1) Professor Boulding _:
   Micro Economics is the study of particular economic organisms and their interaction and of particular economic quantities and their determination.

2) Henderson and Quandt_:
   Micro Economics is the study of economics actions of individuals and well-defined group of individuals.

   The definitions of the above economists clearly indicate that in Micro Economics is a study of behavior of some particular economic units .For example _with the rise in price of a commodity , the economics decreases its consumption but the producer increases its production. The study of these types of private or personal events are possible only in Micro Economics we also study an industry with innumerable firms in Micro Economics. This is because a single unit is represented by an industry for the whole economy. Countless economics work in a nations economy. In this condition it is essential to study industries under Micro Economics.

CHARACTERISTICS OF MICRO ECONOMICS

Following are the characteristics of economics:

1) Study of individual units.

Micro economics helps in the analysis of individual incomes, individual production with group or macro events. Thus micro economics helps in the analysis of whole economy along with study of personal problems.

2) Study of small variable:
   Small variables form part of study of Micro Economics. The effect of these variables is so insignificant that the changes in them do not affect the economy. For example: the demand and supply of the whole economy can never ed by one consumers consumption and one produces production.

3) Study of disseminations of individual price:
   Micro Economics is also known as ôPrice Theoryö. Thus, individual prices of various commodities are influenced by demand and supply are determined under it we also study the events of demand and supply of the commodity in this reference.

USE AND NEED OF MICRO ECONOMICS

Micro Economics has been used since ancient times. Although at present Macro Economics is being used largely yet the uses of Micro Economics is as follows:

1) Essential for whole economy:
   Markets demand and supply is the aggregate of individual demand and supply, thus for knowing the details for the whole economy we must have knowledge of individual unit. If we want information regarding the position of jute industries in the national economy, we must know about various firms with in the jute industry. Thus Micro Economics helps to understand Macro Economics.

2) Helpful for whole economy:
   Price determination and distribution are some important problems in an Economy. Each factors of production demands a greater share for itself. Like wise the problem of price determination also exists Micro Economics has been quite competent in providing a solution for these problems. Since ancient time Micro Economics has been used for price determination in Micro Economics the modes of price and demand are utilized. Thus model presents with the fact that price is determined through the relative forces of demand and supply. The equilibrium

position exits where the demand and supply are in balance. Thus Micro Economics enlightens us on equilibrium as well as.

3) Helpful in formulating economic polices:
   Micro Economics plays an important role in the determination of economic polices. Under this government polices are studied with a view on how they affect working of individual or particular units. For example: we can analyze the effect of government policies on the prices of particular commodities and labour cost and the effect of government policies on distribution of resources.

4) Investigation of condition of economic welfare:
   In Micro Economics along with the attainment of information about individual consumption, living standard etc we can also analyse a effects of public expenditure and public income. If the society benefits more with public expenditure has compare to taxation, than it could definitely be concluded that the economic welfare of society would increase. On the other hand if economic welfare declines than it is because of fall in living standard and consumer surplus due to the influence of public expenditure an income. Thus economists in ancient times considered Micro Economics as a scale of economic welfare.

5) Useful in decision making for individual units:

Microeconomics help in taking the right decision regarding the problems of individual units (like firm, family, individual income, individual savings, etc). For example: every consumer tries to attain maximum satisfaction through limited resources. Like wise producers also try to get maximum satisfaction with maximum production cost. Today each and every firm tries to secure maximum profit by utilizing the demand for analysis and linear programming.

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BRANCHES OF MICRO ECONOMICS

Micro Economics has the following branches_:

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                    MICRO ECONOMICS
                           |
          ___________________________________
          |              |                   |
      PRODUCT         FACTOR           THEORY OF ECONOMIC
      PRICING         ORICING           WELFARE
                        OR
                      THEORY OF
                      DISTRIBUTION
          |                |
   ________________   ____________________________________________
   |              |   |          |           |                |
 THEORY OF     THEORY  WAGES     RENT       INTERNET         PROFIT
CONSUMER         OF
 BEHAVIOUR    PRODUCTION
               AND COST
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LIMITATIONS OF MICRO ECONOMICS

Micro economics is practiced since ancient era and has been accepted as a essential part of economics for the study of economic problems. But it has certain limitations. They are as follows: -

1) Presents one side of the coin (economy):-.

Micro economics concern the study of individual units and not the whole economy. Consequently this analysis in no way represents the true picture of countries and world economy. In other words micro economicsô approach is quite constricted rather than being broad.

2) Unread assumptions: -

   Micro economics is based on unread assumptions that is why it is also termed as imaginary. It is applicable only when an economy is operating under full employment where as full employment level never exists in any economy. Prof. Keynes has rightly commented saying that imagining full employment means ignoring our problems.

3) Imperfect for some economic problems: -

There are certain problems that cannot be dealt in micro economics, e.g. Monetary policy, public finance, industrial policy, exile policy, etc. that is why the importance and scope of macro economics has increase greatly.

4) Certain conclusions of micro economics analysis are not suited from the point of view of whole economy: -

Micro economics major decisions are based on the study of individual units or take up individual approach applicable for macro aspects as well, but practically these approaches do not hold good, e.g. It could be said that savings are good for an individual but not for the economy as a whole, because it adversely affects consumption, production and employment.

MACRO ECONOMICS

Macro Economics was practiced due to various defects and content changing form of Micro economics. Due to 1930ôs worldwide theory of full employment. Prof. Keynes came up with a new employment theory. He said that national and global problem should be approached from macro economistôs point of view. They also have accepted the importance of micro economics.

The nature of macro economics is completely different from micro economics. The problems of the whole economy are studied under macro economics like National income, total production, employment, total supply.

Definition of macro economics: -

It is essential to understand the following definition for understanding the concept of macro economics.

1) Prof. Boulding-ñMacro-Economics deals not with the individual quantities as such but with aggregate of these quantities not with individual incomes but with national income not with individual output but with national output. ò
2) Gardner Ackley-ñIt looks at the size and shape and functioning of the ñelephantò of economic experience, rather than working of articulation or dimension of individual parts. It studies the character of the forest, independently of the trees.ñ

As Marshall during the study of representative firm, imagined a tree in a jungle representing all the other trees of the jungle. Likewise Gardner and Ackley specifically indicated while imagining a jungle that there is the importance of jungle and not of one particular representative tree in Micro Economics. Thus Macro Economics is a study on a broader bias rather than concentrating on Micro elements.

CHARACTERICTS OF MACRO ECONOMICS

The analysis of the above definitions give the following characteristics of macro economics; -

1) Macro Approach: -

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Macro Economics having a macro approach does not give importance micro variables. National and International problems are solved with its assistance. Macro Economics stresses on the importance of dynamic economy while Micro analysis on the static economy

2) ñIt looks at the total size and shape and functioning of the ñelephantò of economic experience rather than working of articulation or dimension of individual parts. It studies the character of the forest independently of trees which compose it.ò- Gardner Ackley

2) MACRO ANALYSIS- macro analysis is the basis of macroeconomics.
For example the subject matter of macro economic includes the effect of monetary and fiscal policy of the government and not its effect on one particular individual or industry. If the composite effect of public in come and expenditure has a positive effect on the society, then it would definitely favorably affect the persons living in the society.

3) GROUP WELFARE RATHER THAN INDIVIDUAL WELFARE- group

Welfare is the prime objective of macro economics making it more significant than individual welfare

4) INTERDEPENDENCE- Change in one unit does not affect the level of Equilibrium in the other in micro economics while in macro units are mutually related so much so that the change in equilibrium in one unit is followed by changes in other too.

NEED AND USE OF MACRO ECONOMICS

Now a days the importance of macro economics has greatly increased due to the limitations and difficulties of micro economics .The need and use of macro economics is made more significant by the following points ï

1) HELPS IN THE DETERMINATION OF PUBLIC ECONOMIC POLICY-At Present, the scope of macro economics encircles international trade, national income and employment, theory of economic development, general price level, money and finance etc. Macro approach is quite useful in framing economic policies aimed at removing unemployment, favoring foreign trade and putting a check on inflation. With the use of macro economics the government plans for economic development. Where in increase in national income, production and employment target for saving and investment are determined. Today under developed countries are mainly facing the problem of development, thus the solution of all these problems can easily be found in macro economics.

3) THE SCALE OF ECONOMIC DEVELOPMENT- While comparing the development of two countries the living standard of the two countries is

compared. But the true picture is still not represented. Thus macro economics comes handy in drawing the true and complete picture of the whole affair.

4) USEFUL IN STUDING MICRO ECONOMICS ï It has been generally believed that macro economics helps in the development of micro economic because for the practical application of its laws and theories, it requires approach. For example law of diminishing utility is formulated after studying the behavior of individual group.
5) USEFUL IN THE STUDY OF COMPLICATED ECONOMY ïThe economic methods are proving to be too complicated and the interdependence of economic elements have also increased greatly today macro economics give us the real picture of the whole economic organization and working while micro economic gives insight only into an individual unit or firm.

LIMITATIONS OF MACRO ECONOMICS

The importance of macro economics analysis has been widely recognized and is increasing but there are certain limitations, they are as follows:

1.Impractical conclusions:

Sometimes, the policies formulated on the basis of macro units result in failure. For example to conclude that prices of commodities would be stable, if the general price index is stable would be a wrong assumption. This is because the increase in some and decrease in the price of other commodities would lead to general price level. Being stable the prices of individual commodities might keep on fluctuating.

2.Insignificant individual units:

The whole economy is significant under macro economicsô analysis and not individual units. As a result it ignores not only the existence but also importance of those units, which are the very foundation of the economic setup, which is unfair.

3.Ignores the importance of group structure:

Generally macro economics studies the external appearance of a group and does not look into the internal structure until and unless we do not have the exact information regarding the structure and all its parts any kind of forecast would be futile in this reference. Thus it is appropriate to say that to give suggestion or forecast on the basis of a group would not be right until we do not get the complete information about the structure and the mutual relationship and behavior of various parts of the group.

4.Collective units do not represent the individual units:

Here, it could be said that one single group could never influence the various economic fields equally. For example with the increase in total demand, total production would increase and some other firms would decrease. Similarly decrease in consumption of commodities adversely effects their production and vice-versa. Thus due to a number of differences a group fails to present a true picture of the individual units.

INTERDEPENDENCE OF METHODS

Micro and macro economics are two different methods of economic analysis. both of them are not competitors but are complimentary. Neither of the two are complete in itself. Each has its own defects and limits. Shortcoming of one is fulfilled by the other. That is why both these systems are called complimentary to each other. This can also be proved by the following examples.

1.Need for the economic analysis in macro economics analysis:

The intimate relationship pf macro economics with micro economics can be explained as follows:

a} The combination of individual units for getting an insight into the whole economy and determine the related policies, is studied. The conclusion drawn on the basis of macro economics would not be correct till we do not have the exact knowledge of individual units. Thus it can be said that micro economics is the base on which macro economics is standing. For example- as any society is made of persons similarly an industry constitutes of various firms and an economy consists of various industry. Therefore it is necessary to have complete knowledge regarding individual units to understand the whole economy, as we must have the data of incomes of all the individuals to calculate the national income since the total of incomes of all individuals adds up to make national income.

b} we can have access to the right and exact information regarding the general tendency of an economy only if we have the knowledge of the facts and theories, which effect the behavior of individuals, families and firms. Thus the job of macro economics analysis remains incomplete without micro economic analysis, because the basis of studying whole economy is individuals analysis. According to Prof.Samuelson, ñ there is not really any opposition between micro and macro economics. Both are absolutely vital. And you are only half educated if you understand the one while being ignorant of the otherò.

c} Generally it is believed that with the increase in societies demand for commodities, the firms increase their production, but this is not so easy for the firms whose production cost has an increasing trend. Similarly with an increase in income the demand for certain commodities might fall. For example at a low level of income people demand for cycles. But with a rise in income their demand jumps to scooters. as a result the demand for scooters would definitely increase while the demand for cycles would be reduced. Consequently production in scooter factory would increase and in cycle factory it would fall. It is obvious from the above discussion that for attaining proper knowledge regarding working of an economy, it is essential to pay attention on the various individual units and their mutual relationship.

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2.Need for macro economic analysis in micro economic analysis:

As it is necessary to take help from micro economics analysis for macro economic analysis, similarly it is essential to take help from macro economic analysis for micro economic analysis.

RELATIONSHIP BETWEEN MICRO AND MACRO ECONOMICS

1.Occasionally an individual producer faces the problem regarding determination of wages of factors of production matter of micro economics. But practically this does not happen, the producer alone cannot determine the wages of its factors of production. Thus this is a problem that micro economics cannot handle since the wages of the laborers of one firm depend on the wage level of the another local firm. The wages are not only influences by local firms but also by firms in different parts of the country and the popular general wage rate of the whole economy.

2.The scale of a firm not only depends on the price but also the purchasing power of the society. If the purchasing power of the society is less, the scales would not rise even with the fall in the prices and vice versa.

3. A firm would have to consider the total demand, purchasing power, level of employment and income level of the society for the determination of the quantum of production. in short , it can be said that no firm can determine the price wages, and output freely. Thus micro economic analysis needs the support of macro economic analysis for itǿs functioning

   The above analysis clearly indicates that micro and macro economics are complimentary to each other. To conclude we cans ay that macro and micro economics must be used considering that though they are related closely, still they have certain fundamental differences, only there could be solved.

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