MICRO ECONOMICS- INTRODUCTION

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WHY We Study Economics

What is Economics ?

Economics is nothing but common sense

Economics is the Queen of all Social Sciences - Inter linkages

Origin of the term Oikonomikos ------Political Economy

Adam Smith ----- Wealth of Nations --1776

ECONOMICS

MACRO ECONOMICS

MICRO ECONOMICS

DIFFERENCES

- Individual Unit/ Aggregates
- Partial Equilibrium Analysis/ General Equilibrium Analysis
- ……………..
- ………………

CONCEPTS

1. **Wealth** ----Adam Smith AENWN

2. **Welfare Definition-**----Alfred Marshell - study of both wealth and man an addition - study of mankind in ordinary business of life POE

3. **Scarcity Definition** .....Lionel Robbins -Accepted definition ? NSES

   Three Postulates

   1.Human Wants are Unlinied

   2.Resource are limited

   3. Resources have Alternative Uses

4. **Growth Definition** ....Paul Samuelson talks about resource allocation ECONOMICS

SUBJECT MATTER OF ECONOMICS

1. PRODUCTION - Factors of production

2. CONSUMPTION

3. DISTRIBUTION

4. EXCHANGE

SCOPE OF ECONOMICS

Micro Economics

1. Economic Behavior of small economic units

2. Choices under conditions of scarcity

3. Decision of the Consumers

4. Allocation decision of the firms and Consumers – objective of maximization of profits and satisfaction

5. Social issues and problems- Environmental pollution, poverty , consumer well being

IMPORTNCE or USES OF MICRO ECONOMICS

1. Price Determination

1. Used for conditional predictions

2. Analytical Tool for Economic Analysis

3. Conditions of Economic Welfare

1. Decision making in the employment of resource in government programmes.

METHODS OF ECONOMICS

Two Methods for the construction of Economic Models

1.Deduction

From Universal to Individual
or
General to Particular

Analytical Method ----Assumptions--- logical Conclusion --- Testable

Hypothesis– Confirmed By facts ---tentative theory---- stands test and time ---- law

INDUCTION

REVERSE

Particular to General

Individual to Universal

-Empirical Method ---Start with

observed Facts ---Establishes the Cause and Effect and ----

Generalizations

POSITIVE and NORMATIVE ECONOMIS

Positive -- Objective and Scientific ---Free from Value Judgments

What is or was

Actually what it is or what was

Normative Economics

What ought to be or

What Shall be

Not free from Value judgment

What might be

VALUE JUDGEMENT ?

ECONOMIC SYSTEMS

CAPITALISM – Market Mechanism - **MARKET ECONOMY-** No Government Intervention - Fop or MoP owned by private individuals

PRODUCTION CONSUMPTION DISTRIBUTION -- Determined by Pricemechanisam --

SOCIALISM ---Planning Board -- **SOCIALIST ECONOMY --- MoP owned by Government—No role foe Price Mechanisam**

MIXED ECONOMY- Public -Private Combination –

market signals and planned decisions

Key Role for Planning Commission

BASIC ECONOMIC PROBLEMS

1.What to Produce - Allocation of scarce resource amoung alternative uses- Resource Allocation

How these problems called in different Eco. Systems

2.**How to Produce-**- Choice of combination of the factors of prodction

Labour intensive or Capital intensive

How this? In different Economic System

3.For whom to produce? Price machanisam in ME

Govt Distribution system

4. Economic Growth -PCI Growth -Resource Utilisation-Techonology devt How? Capital Accumulation and Tch Progress High profit expectation SE &ME ?

5. Rationing of the commodities

--Allocation of given quantity.– Rationing restricts current consumptions.

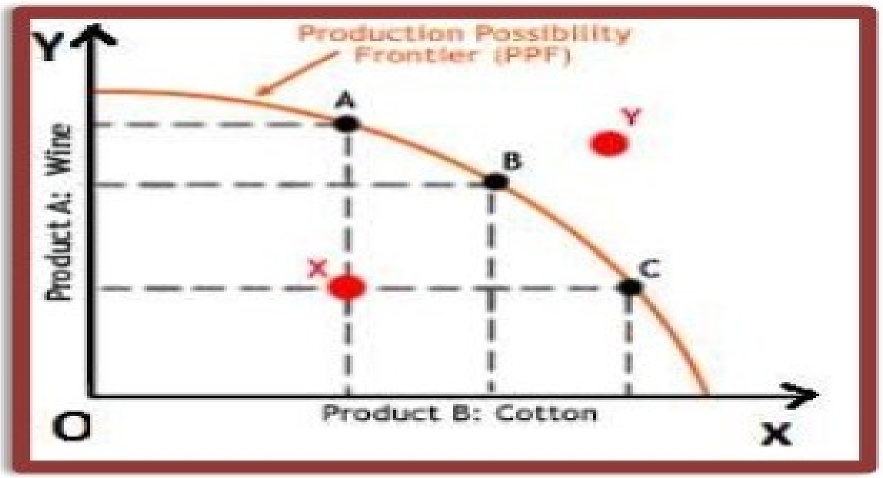
Price System- Free enterprice Economy

Planning Commission -the system of rationg in SE

Mixed Economy -- combination of both

Introduction

A ***Production Possibility Curve (PPC)*** or ***Production Possibility Frontier (PPF)*** shows the graphical presentation of various combination of two goods that can be produced with available technologies and given resources.



In the context of the diagram: a point on the frontier indicates efficient use of the available inputs (such as A, B and C in the graph), a point beneath the curve (such as X) (such as Y) indicates impossibility.

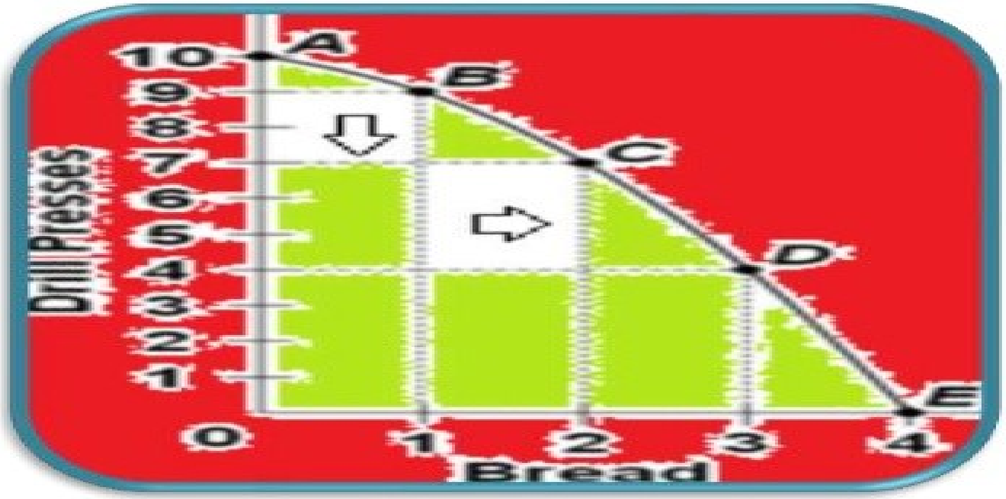
Assumptions

1. The resources available are fixed.
2. The technology remains unchanged.
3. The resources are fully employed.
4. The resources are efficiently employed.
5. The resources are not equally efficient in production of all products. Thus, if resources are transferred from production of one good to another, the cost increases. In other words, marginal opportunity cost increases.

Marginal opportunity cost (MOC) / Marginal rate of transformation (MRT) is the slope of PPC (Production Possibility Curve). In other words, shape of PPC depends on MOC / MRT.

MOC is the loss of output of output of one commodity (say Y) when a unit more of other commodity (say X) is produced by shifting resources from one good to the other (from Y to X). It is also rate of sacrifice.

MRT is the rate at which the units of output of one good are sacrificed to produce one more unit of the other good.



Properties

I. ***Concave to Origin.–***

PPC curve is concave to the origin. This is because of the increasing opportunity cost.

II. ***Increasing Marginal Rate of Transformation :–***