

PART I

INTRODUCTION

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MICRO AND MACROECONOMICS

"The level of macroeconomics is concerned either with the economy as a whole or with the basic subdivisions or aggregates, such as, government, households and businesses—which make up the economy.....In short, macroeconomics examines the forest, not the trees."

—McConnell, Campbell R., *Economics : Principles, Problems and Policies*, (1966), p.16.

MICROANALYSIS AND MACROANALYSIS

It has become fashionable these days to approach economic theory either *via* micro or *via* macroanalysis. In fact, the two terms have become quite current in the economists' jargon, and economic theory is divided today under two heads : *Microeconomics* and *Macroeconomics*. Before we actually state as to what these two terms stand for, it would not be out of place to point out how these terms originated and got current in popular use. These terms were coined¹ by Prof. Ragnar Frisch of Oslo University in 1933 and since then they have been adopted by other economists so that by now they have become part and parcel of economic terminology. Prof. Maurice Dobb of the Cambridge University has introduced a slight variation in the use of these terms by rechristening them as *Microscopic* and *Macroscopic*.² Prof. Frisch's terminology has, however, come to stay and we hardly come across a modern treatise on economic analysis which does not observe the popular distinction between *Microeconomics* and *Macroeconomics*. In some well-known text-books,³ the whole range of economic theory is discussed under these two heads.

MICROECONOMICS

Meaning of Microeconomics

'Micro' means a millionth part. Microeconomics, thus, deals with a small part or a small component of the national economy of a country. *Microeconomics may be defined as that branch of economic analysis which studies the economic behaviour of the individual unit, may be a person, a particular household, or a particular firm. It is a study of one particular unit rather than all the units combined together.* In microeconomics, we study the various units of the economy such as thousands of consumers, thousands of producers or firms, thousands of workers and resources suppliers and how they function and how they reach their equilibrium. In other words, in microeconomics, we attempt only a microscopic study of the national economy or we analyse only a tiny part of the economy at a time ; we do not study the national economy in its totality. An inquiry as to how a particular person maximizes his satisfaction, or how a particular firm maximizes its profits, or how a particular family adjusts its expenditure to income is an inquiry in the domain of microeconomics. Microeconomics, thus, studies the behaviour of *micro-quantities* or *micro-*

1 Schumpeter, J. A., *History of Economic Analysis*, pp. 997-98.

2 Dobb, Maurice, *Political Economy and Capitalism* (1953).

3 See, for example, K. E. Boulding's *Economic Analysis* (1954).