HS 2nd YEAR ECONOMICS

INTRODUCTION TO MICROECONOMICS

Social sciences study the organization and functioning of a society. Economics is one such social science that studies the economic behaviour of individuals and organizations engaged in the production, distribution and consumption of goods and services in a society. It is concerned with the day-to-day innumerable economic questions both at individual level and at national level.

Microeconomics

According to A.J Brown, "Economy is a system which provides people with goods and services which directly or indirectly satisfy their wants."

Economics is generally studied under two broad branches namely, microeconomics and macroeconomics. It was first coined by **Ragnar Frisch** in 1933.

The word micro has been derived from the Greek word *mikros* meaning small. Hence, microeconomics studies the behaviour of small economic units, studying the economic behaviour of individual decision making units of an economy and not the economy as a whole.

However, at the level of an individual economic unit, problem of choice arises due to which central problems like what, how and for whom to produce falls into the domain of microeconomics.

The theory of microeconomics is also known as 'price theory' as it is primarily concerned with the determination of prices of individual commodities and factors of productions. The general interaction between the forces of demand and supply determine the process of products. The demand for goods depends upon consumers' behaviour pattern while its supply depends upon producers' behaviour pattern.

Stated in a slightly different way, microeconomics studies the behaviour of individual economic units in the market for different goods and services. Here, we try to understand how prices and quantities of goods and services are determined through the interaction of individuals in these markets. In the analysis of price determination in a particular industry, it is assumed that the price and output in the industry under study are independent of those in other industries. On account of this *ceteris paribus* assumption, meaning 'all other things being equal', microeconomics is also called 'partial equilibrium analysis'.

Scope of Microeconomics

The scope of microeconomics may be summarised as below:

(a) How consumer spends his money income on the purchase of various goods and services i.e. theory of demand.

(b) How producer uses quantity of different factors of production i.e. theory of production.

(c) How to minimise cost of production i.e. theory of cost.

(d) How prices of goods are determined i.e. theory of product pricing.

(e) How the produced output is shared or distributed among different factors of production i.e. theory of distribution and

(f) Whether resources are efficiently allocated i.e. welfare economics.

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