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GK & Current Affairs

Introduction to Economics (Micro & Macro Economics)

Microeconomics vs Macroeconomics: An Overview:

Economics is divided into two categories: microeconomics and macroeconomics. Microeconomics is the study of individuals and business decisions, while macroeconomics looks at the decisions of countries and governments. Though these two branches of economics appear different, they are actually interdependent and complement one another. Many overlapping issues exist between the two fields.

Key Takeaways

- Microeconomics studies individuals and business decisions, while macroeconomics analyses the decisions made by countries and governments.
- Microeconomics focuses on supply and demand and the other forces that determine price levels, making it a bottom-up approach.
- Macroeconomics takes a top-down approach and looks at the economy as a whole, trying to determine its course and nature.
- Investors can use microeconomics in their investment decisions, while macroeconomics is an analytical tool mainly used to craft economic and fiscal policy.

Microeconomics

Microeconomics is the study of decisions made by people and businesses regarding the allocation of resources and prices at which they trade goods and services. It considers taxes, regulations, and government legislation.

Microeconomics focuses on supply and demand and other forces that determine price levels in the economy. It takes a bottom-up approach to analysing the economy. In other words, microeconomics tries to understand human choices, decisions, and the allocation of resources.

Having said that, microeconomics does not try to answer or explain what forces should take place in a market. Rather, it tries to explain what happens when there are changes in certain conditions.

For example, microeconomics examines how a company could maximise its production and capacity so that it could lower prices and compete better. A lot of microeconomic information can be gleaned from company financial statements. Microeconomics involves several key principles including (but not limited to):

- **Demand, supply, and equilibrium**: Prices are determined by the law of supply and demand. In a perfectly competitive market, suppliers offer the same price demanded by consumers. This creates economic equilibrium.
- **Production theory**: This principle is the study of how goods and services are created or manufactured.
- **Costs of production**: According to this theory, the price of goods or services is determined by the cost of the resources used during production.
- **Labour economics**: This principle looks at workers and employers and tries to understand patterns of wages, employment, and income.

Macroeconomics

Macroeconomics, on the other hand, studies the behaviour of a country and how its policies impact the economy as a whole. It analyses entire industries and economies rather than individuals or specific companies, which is why it's a top-down approach. It tries to answer questions such as 'What should the rate of inflation be?' or 'What stimulates economic growth?'

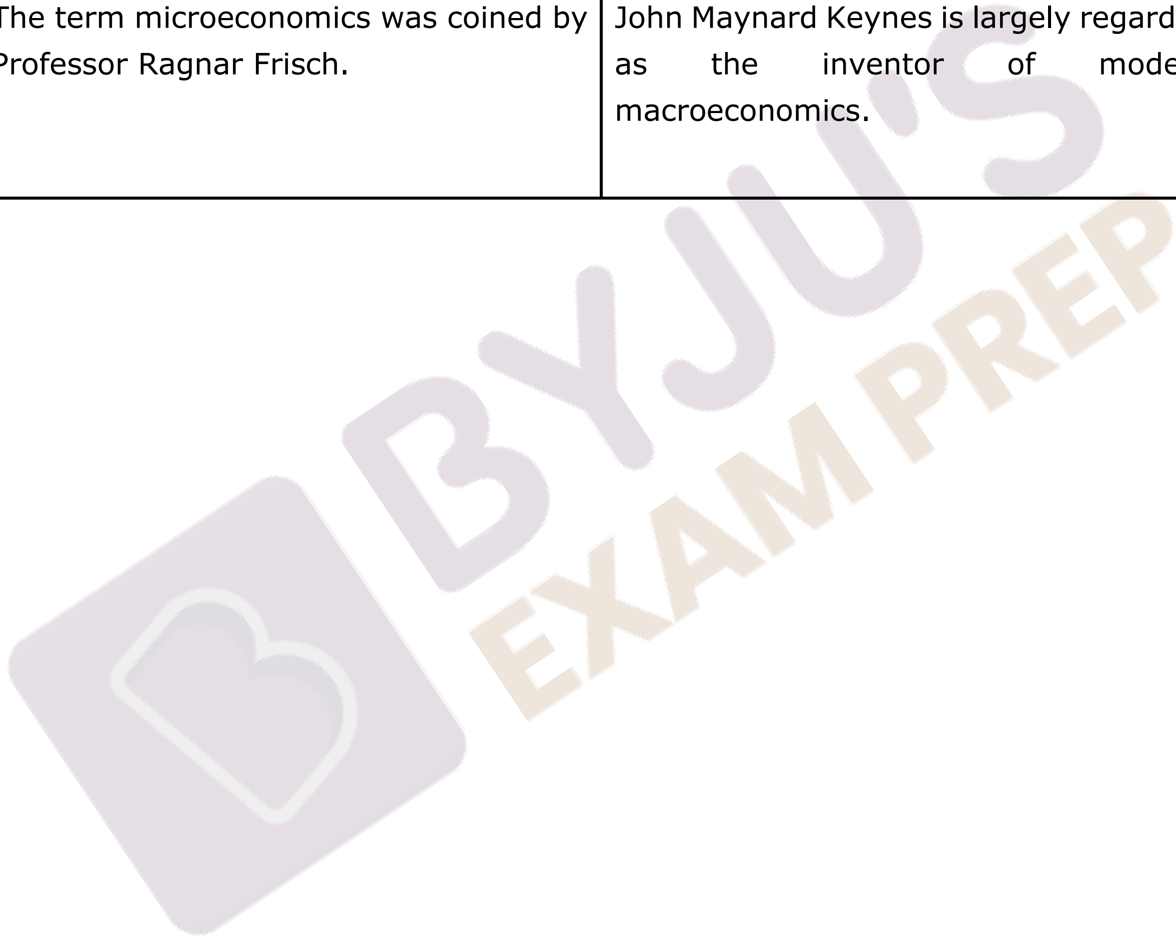
Macroeconomics examines economy-wide phenomena such as Gross Domestic Product (GDP) and how it is affected by changes in unemployment, national income, rates of growth, and price levels. Macroeconomics analyses how an increase or decrease in net exports impacts a nation's capital account or how Gross Domestic Product (GDP) is impacted by the unemployment rate.

The differences between microeconomics and macroeconomics are highlighted in the table below:

Differences between Microeconomics and Macroeconomics

Microeconomics	Macroeconomics
Microeconomics studies individuals and business decisions.	Macroeconomics studies the impact of business decisions made by countries and governments.
Microeconomics focuses on supply and demand and other forces that determine price levels.	Macroeconomics focuses on the entire economy while taking a top-down approach to determine its course and nature.

Potential investors can use microeconomics to make their decisions.	Macroeconomics is an analytical tool used to craft economic and fiscal policy.
Microeconomics portrays a picture of the goods and services needed for a robust economy. It also projects which goods and services will have demand in the future.	Macroeconomics ensures that the economic resources available in the country are optimally utilised.
The term microeconomics was coined by Professor Ragnar Frisch.	John Maynard Keynes is largely regarded as the inventor of modern macroeconomics.



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