1. Introduction to Micro Economics and Macro Economics

Q. 1. Choose the correct option:
1) The branch of economics that deals with the allocation of recourse.
Ans. Macroeconomics

2) Concepts studied under Micro economics.
Ans. Factor pricing, product pricing

3) Method adopted in micro economic analysis.
Ans. Slicing method

4) Concepts studied under Macro economics.
Ans. Whole economy, economic development, aggregate supply

Q. 2. Complete the correlation:
1) Micro economics Slicing method: : Macro economics<u>: Lumping method</u>
2) Micro economics: Tree: :Macro economics: <u>Forest</u>
3) Macroeconomic theory and Income employment: :Micro economics:<u> Theory of product pricing / Theory of factor pricing / Theory of economic welfare</u>
4) Makros: Macro economics: :Mikros: <u>Microeconomics</u>
5) General equilibrium: Macro economics:: <u>Partial equilibrium. </u>: Micro economics

Q. 3. Identify and explain the concepts from the given illustrations:sssssss
1) Gauri collected the information about the income of a particular firm.
Ans. (A) Identified concept: Study of individual economic unit.
(B) Explanation of concept: The study of economic behaviour of a particular unit by isolating it from the other forces of economy is known as the study of individual economic unit. For example, microeconomics deals with the study of individual economic units such as individual firm, individual price, etc

2) Ramesh decided to take all decisions related to production, such as what and how to produce?
Ans. (A) Identified concept: Business decision in a free market economy
(B) Explanation of concept: In a free market economy, producer has to make some decisions in order to achieve efficiency in production. Such decisions are called business decisions in a free market economy. The producer has to take business decisions

regarding the price of the product. Production cost, etc. In case of business decision in a free market economy, there is no intervention by the government or any other agency.

3) Shabana paid wages to workers in her factory and interest on her bank loan.
Ans. (A) Identified concept: Payment of factor price / reward.
(B) Explanation of concept: The factors of production, viz. land. labour, capital and entrepreneur are essential for the production of goods. These factors of production get rewards in the form of rent, wages, interest and profit respectively from the producer.

Q. 4. Answer the following:
1) Explain the features of Micro economics
Ans. Features of Micro Economics:
1) Study of Individual Units: Micro economics is the study of the behavior of small individual economic units, like individual firm, individual price, individual household etc.
2) Price Theory: Micro economics deals with determination of the prices of goods and services as well as factors of production. Hence, it is known as price theory.
3) Partial Equilibrium: Equilibrium is the balance between two factors. Micro economic analysis deals with partial equilibrium which analyses equilibrium position of an individual economic unit i.e. individual consumer, individual firm, individual industry etc. It isolates an individual unit from other forces and studies its equilibrium independently.
4) Based on Certain Assumptions: Micro economics begins with the fundamental assumption, "Other things remaining constant" (Ceteris Paribus) such as perfect competition, laissez-faire policy, pure capitalism, full employment etc. These assumptions make the analysis simple,
5) Slicing Method: Micro economics use slicing method. It splits or divides the whole economy into small individual units and then studies each unit separately in detail. For example, study of individual income out of national income, study of individual demand out of aggregate demand etc.
6) Use of Marginalism Principle: The concept of Marginalism is the key tool of micro economic analysis. The term 'marginal' means change brought in total by an additional unit. Marginal analysis helps to study a variable through the changes. Producers and consumers take economic decisions using this principle.
7) Analysis of Market Structure: Micro economics analyses different market structures such as Perfect Competition, Monopoly, Monopolistic Competition, Oligopoly etc.
8) Limited Scope: The scope of micro economics is limited to only individual units. It doesn't deal with the nationwide economic problems such as inflation, deflation, balance of payments, poverty, unemployment, population, economic growth etc.

2) Explain the importance of Macro economics.
Ans. Importance of Macroeconomics:

1) Functioning of an Economy: Macro economic analysis gives us an idea of the functioning of an economic system. It helps us to understand the behaviour pattern of aggregate variables in a large and complex economic system.
2) Economic Fluctuations: Macro economics helps to analyse the causes of fluctuations in income, output and employment and makes an attempt to control them or reduce their severity.
3) National Income: Study of macro economics has brought forward the immense importance of the study of national income and social accounts. Without a study of national income, it is not possible to formulate correct economic policies.
4) Economic Development: Advanced studies in macro economics help to understand the problems of developing countries such as poverty, inequalities of income and wealth, differences in the standards of living of the people etc. It suggests important steps to achieve economic development.
5) Performance of an Economy: Macro economics helps us to analyse the 307 IpM performance of an economy. National Income (NI) estimates are used to measure the performance of an economy over time by comparing the production of goods and services in one period with that of the other period.
6) Study of Macro economic Variables: To understand the working of the economy, study of macro economic variables are important. Main economic problems are related to the economic variables such as behaviour of total income, output, employment and general price level in the economy.
7) Level of Employment: Macro economics helps to analyse the general level of employment and output in an economy.

3) Explain the scope of Macro economics.
Ans. The scope of microeconomics is mainly confined to price theory and resource allocation. Microeconomics seeks to obtain solutions to the basic economic questions such as what goods are to be produced, how many goods are to be produced, who should produce goods, how the goods are to be produced, how the produced goods are to be distributed, how the resources are to be efficiently allocated to production and consumption, etc. Thus, the scope of microeconomics can be explained as follows:
(A) Price Theory: The scope of microeconomics is confined to price theory. It includes following price theories:

Q.5 State with reasons whether you agree or disagree with the following sentences:
(1) The scope of microeconomics is unlimited
Ans. No, I disagree with this statement.
Reasons: (1) The term 'microeconomics' is derived from the Greek word 'mikros' which means a small or millionth part. Thus, microeconomics studies particular unit of an

economy.
(2) Microeconomics studies the economic individual demand, individual supply, individual income, price of a particular product, etc.
(3) Microeconomics studies how a particular consumer tries to attain maximum satisfaction and How a particular producer tries to attain maximum profit. Microeconomics does not include the study of the large aggregates. Thus, microeconomics is not aggregative but is individualistic in nature. Therefore, the scope of microeconomics is not unlimited but it is limited.

(2) Macroeconomics deals with the study of individual behaviour.
Ans. No, I disagree with this statement.
Reasons: (1) Macroeconomics does not study the individual economic unit such as particular consumer, individual demand, particular seller, individual supply, price determination of particular good, etc.
(2) Microeconomics studies individual economic units and deals with how a particular consumer attain maximum satisfaction and how a particular producer attain maximum profit.
(3) Macroeconomics studies the economic behaviour of aggregates, their functional relationship. their
interdependence, their determination and causes of fluctuations in them. Thus, macroeconomics does not deal with the study of individual behaviour, rather it deals with the study of behaviour of aggregates.

(3) Macroeconomics is different from microeconomics.
Ans. Yes, I agree with this statement.
Reasons: (1) Macroeconomics is the study of entire economy. On the other hand, microeconomics is a study of a particular segment of an economy
(2) Macroeconomics studies aggregate demand, aggregate supply, national income, general price level, etc. On the other hand, microeconomics studies individual demand, individual supply, individual income, price determination of particular product, etc.
(3) Macroeconomics follows general equilibrium analysis. On the other hand, microeconomics follows partial equilibrium analysis. Macroeconomics uses lumping method. On the other hand,
Micro economics uses slicing method. Therefore, macroeconomics is different from micro economics.

(4) Microeconomics uses slicing method.
Ans. Yes, I agree with this statement.
Reasons: (1) Microeconomics studies the individual economic units of an economy. For example, study of a particular firm.

(2) For studying individual economic units, microeconomics splits the economy into small individual economic units.
(3) Then it studies the economic behaviour of each individual economic unit separately in detail. Therefore, microeconomics uses slicing method.

(5) Microeconomics is known as Income Theory
Ans. No, I disagree with this statement.
Reasons: (1) Income Theory lies within the scope of macroeconomics.
(2) Microeconomics explains how the prices of a variety of goods and services are determined. Thus, theories of demand, supply, production function and cost fall within the scope of microeconomics.
(3) Microeconomics also explains how the prices of factors of production, viz., land, labour, capital and entrepreneur are determined. Thus, theories rent, wages, interest and profit fall within the scope of microeconomics. Therefore, microeconomics, is not known as Income Theory but is known as Price Theory.

Q.6 Answer in detail:
(1) Explain the importance of microeconomics
Ans. The importance of microeconomics can be explained with the help of the following points:
(1) Helpful in explaining price determination: Microeconomics helps in explaining the price determination of goods and services as well as factors of production.
(2) Helpful to understand the working of free market economy: Microeconomics helps to understand how free market economy works and gets regulated by demand and supply principles. Microeconomics helps producers to take business decisions about what to produce, how to produce. how much to produce, etc. at individual levels. There is no intervention by government or any other agency in this decision making process.
(3) Helpful in foreign trade: Microeconomics is useful in studying the aspects related to foreign trade such as effects of tariff, determination of exchange rate, gains from international trade, etc.
(4) Helpful in economic model building: Microeconomics helps in understanding complex economic situations with its variety of models. Many terms, concepts, terminologies, tools of economic analysis of microeconomics have valuably contributed to the science of economics.
(5) Helpful to businessmen in taking business decisions: Microeconomics help businessmen in formulating prices of products or services, minimizing the cost of production, analysing profitability of investment, attainment of maximum productivity, etc. It also helps businessmen in demand forecasting
(6) Useful to government: Microeconomics is useful to government in framing economic policies such as tax policy, public expenditure policy, price policy, etc.

Microeconomics also guides government in attaining the goal of efficient allocation of resources and economic welfare of society.

(7) Basis of welfare economics: Microeconomics provides explanation for the conditions of economic welfare. It explains how the maximum welfare of people in society can be achieved by avoiding wastage of resources. Thus, microeconomics has many theoretical and practical importance as well as uses.

(4) Explain the concept of macroeconomics and Its features.

Ans. The word macro is derived from the Greek word 'makros', meaning large or aggregate (total). Macroeconomics therefore is the study of aggregates covering the entire economy. It is also known as Theory of Income and Employment or simply as Income Analysis. The following are the features of macroeconomics:

(1) Study of aggregates: Macroeconomics deals with the study of a nation's economy as a whole. It is the study of very large, economy-wide aggregates such as national output or national income, total employment, aggregate demand., aggregate supply total investment, total consumption, general price level, etc.

(2) Income theory: Macroeconomics is also known as theory of Income and Employment or Income Analysis. Macroeconomics explains the determination of the level of national income and employment and what causes fluctuations in them. Further It explains the growth of national income over a long period of time and social accounting.

(3) General equilibrium analysis: Macro economic analysis is based on general equilibrium analysis. This analysis deals with entire economy in the context of equilibrium. It studies the behaviour of number of economic variables at a time and takes into consideration their functional relationship and interdependence. It explains how aggregate supply and aggregate demand are brought into equality and how equilibrium between these forces determine price level as well as level of income and employment. This whole analysis involves the study of number of variables and their interaction.

(4) Based on interdependence: Macroeconomics takes accounts of interdependence between aggregate economic variables such as national income. total output, employment level, total investment and price level, etc. For example, it explains how change in the level of total investment will finally change the level of national income, total output, employment level and eventually level of economic growth.

(5) Use of lumping method: Macroeconomics deals with the behaviour of aggregates, i.e. total values of economic variables related to whole economy. It uses method of lumping to deal with macro variables such as aggregate demand, aggregate supply, national output, etc.

(6) Study of growth models: Macroeconomics studies in detail various factors that contribute to economic growth and development, Macroeconomics is useful in developing economic growth models. These economic growth models are used for studying economic development. For example. Mahalanobis growth model emphasized on basie heavy industries.

(7) Study of general price level: Macroeconomics studies the determination of general price level. General price level is the average of all prices of goods and services currently being produced in the economy. Macroeconomics also studies the changes in the general price level. i.e. trade cycles.

(8) Policy oriented: Macroeconomics, according to Keynes, is a policy oriented science. Macroeconomic analysis helps in formulating suitable economic policies to promote economic growth. to generate employment to control inflation, to pull the economy out of depression, etc.