

MICRO ECONOMICS -I

- Definition of Economics-Adam Smith definition-
Marshall definition-Samuelson definition -Inductive
and deductive approach-Positive and normative
economics -Micro and macro economics -Importance
and limitations

Micro economics -I

INTRODUCTION

- Economics is a study of ‘**Choices**’ or ‘**Choice-Making**’
- Choice-making is relevant for every individuals, families, societies, institutions, areas, state and nations and for the whole world.
- Hence, Economics has wide applications and relevance to all individuals and institutions.

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DEFINITION OF ECONOMICS

Meaning of the word ‘Economics’

- The word ‘Economics’ originates from a Greek word ‘**Oikonomikos**’
- This Greek word has two parts:
 - ‘**Oikos**’ meaning ‘Home’
 - ‘**Nomos**’ meaning ‘Management’

Hence, Economics means ‘Home Management’

MICRO ECONOMICS

Evolution in the Definitions of Economics

- **A. Wealth Definition (1776)** Adam Smith
- **B. Welfare Definition (1890)** Alfred Marshall
- **C. Scarcity Definition (1932)** Lionel Robbins
- **D. Growth Definition (1948)** P.A. Samuelson
- **E. Modern Definition (2011)** A.C. Dhas

ADAM SMITH DEFINITION

Wealth Definition (1776)

- Adam Smith, who is regarded as Father of Economics, published a book titled '*An Inquiry into the Nature and Causes of the Wealth of Nations*' in 1776.
- He defined economics as “**a science which inquires into the nature and cause of wealth of nations**”.
- He emphasized the production and growth of wealth as the subject matter of economics.

Welfare definition

Welfare Definition (1890):

- In 1890, Alfred Marshall stated that “Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of material requisites of wellbeing”.
- It is on one side a study of wealth; and on the other side, a study of human welfare based on wealth.

Scarcity definition

Scarcity Definition (1932)

- According to Lionel Robbins: **“Economics is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses.”**
- He emphasized on **‘choice under scarcity’**. In his own words, “Economics ,, is concerned with that aspect of behaviour which arises from the scarcity of means to achieve given ends.”

Growth definition

Growth Definition (1948)

- According to Prof. Paul A Samuelson
“Economics is the study of how men and society choose with or without the use of money, to employ the scarce productive resources which have alternative uses, to produce various commodities over time and distribute them for consumption now and in future among various people and groups of society. It analyses the costs and benefits of improving pattern of resource allocation”.
- This definition introduced the dimension of growth under scarce situation.

Meaning

Dictionary Meaning

▪ ***Inductive Method***: using particular examples to reach a general conclusion about something.

▪ ***Deductive Method***: using logic or reason to form a conclusion as opinion about something.

Positive and normative economics

- A positive economic statement is a statement that can be verified true or false.
- A normative economic statement is an opinion. It is a view that others may disagree with.
- Positive economics talks about things that “are”. They are facts. They can be verifiable. You can prove it or disprove it. You can test it. And you can find out whether these statements mentioned under [positive economics](#) are true or untrue.
- But normative economics is fiction. They aren’t facts; rather they are opinions of economists who tell us what they think. It can be true for some and false for some. And these statements mentioned under [normative economics](#) aren’t verifiable. They can’t be tested either.

Micro economics

Micro economics



The prefix 'micro' is derived from Greek word 'mikros', meaning small.

“Micro economics studies the economic behaviour of individual economic units and individual economic variables.”

The study of economic behaviour of the households, firms and industries forms the subject-matter of micro economics.

Macro Economics

Macro economics

"Macro economics deals not with individual quantities as such but with aggregate of these quantities; not with individual incomes but with national income; not with individual prices but with the price level; not with individual outputs but with the national output."

- Prof. Boulding

The prefix 'macro' is derived from the Greek word 'makros' meaning, 'large'.

Macro economics is the study of the economy as a whole.

Macro economics " deals with the functioning of the economy as a whole."

Important Uses of Microeconomics

- ▶ 1. It explains price determination and the allocation of resources.
- ▶ 2. It has direct relevance in business decision-making.
- ▶ 3. It serves as a guide for business' production planning.
- ▶ 4. It serves as a basis for prediction.
- ▶ 5. It teaches the art of economizing.
- ▶ 6. It is useful in determination of economic policies of the Government.
- ▶ 7. It serves as the basis for welfare economics.
- ▶ 8. It explains the phenomena of International Trade.

Importance of Macroeconomics

1. It explains the working of the economic system as a whole.
2. It examines the aggregate behaviour of the macroeconomic entities like firms, households and the government.
3. Its knowledge is indispensable for the policy-makers for formulating macro-economic policies such as monetary policy, fiscal policy, industrial policy, exchange control, income policy, etc.
4. It is very useful to the planner for preparing economic plans for the country's development.
5. It is helpful in international comparison. For example, microeconomic data like national income, consumption, saving-income ratio, etc. are required for a comparative study of different countries.

Limitations of Microeconomics

- ▶ 1. Most of the micro-economic theories are abstract.
- ▶ 2. Most of the microeconomic theories are static – based on *ceteris paribus*, i.e. “other things being equal”.
- ▶ 3. Microeconomics unrealistically assumes ‘laissez-faire’ policy and pure capitalism.
- ▶ 4. Microeconomics studies only parts and not the whole of the economic system. It cannot explain the functioning of the economy at large.
- ▶ 5. By assuming independence of wants and production in the system, microeconomics has failed to consider their ‘dependent effect’ on economic welfare.
- ▶ 6. Microeconomics misleads when one tries to generalize from the individual behaviour.
- ▶ 7. Microeconomics in dealing with macroeconomic system unrealistically assumes full employment.

Limitations of Macroeconomics

1. It ignores, individual behaviour altogether.
2. It has a tendency to excessive generalisation. Thus, analysing in aggregate terms, it pays least attention to the differences involved in the constituents
3. It is not easy to get correct and complete measures of economic aggregates. Thus, macroeconomic analysis lacks precision in actual practice.
4. Macroeconomic predictions are not fully reliable when they are based on incomplete information or inaccurate measures. National income, price index number etc. are only rough indicators.
5. Often macro level policies may not produce the same results at macro levels.

References

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