

# Fundamentals of Economics – Micro and Macro Economy

## Agenda

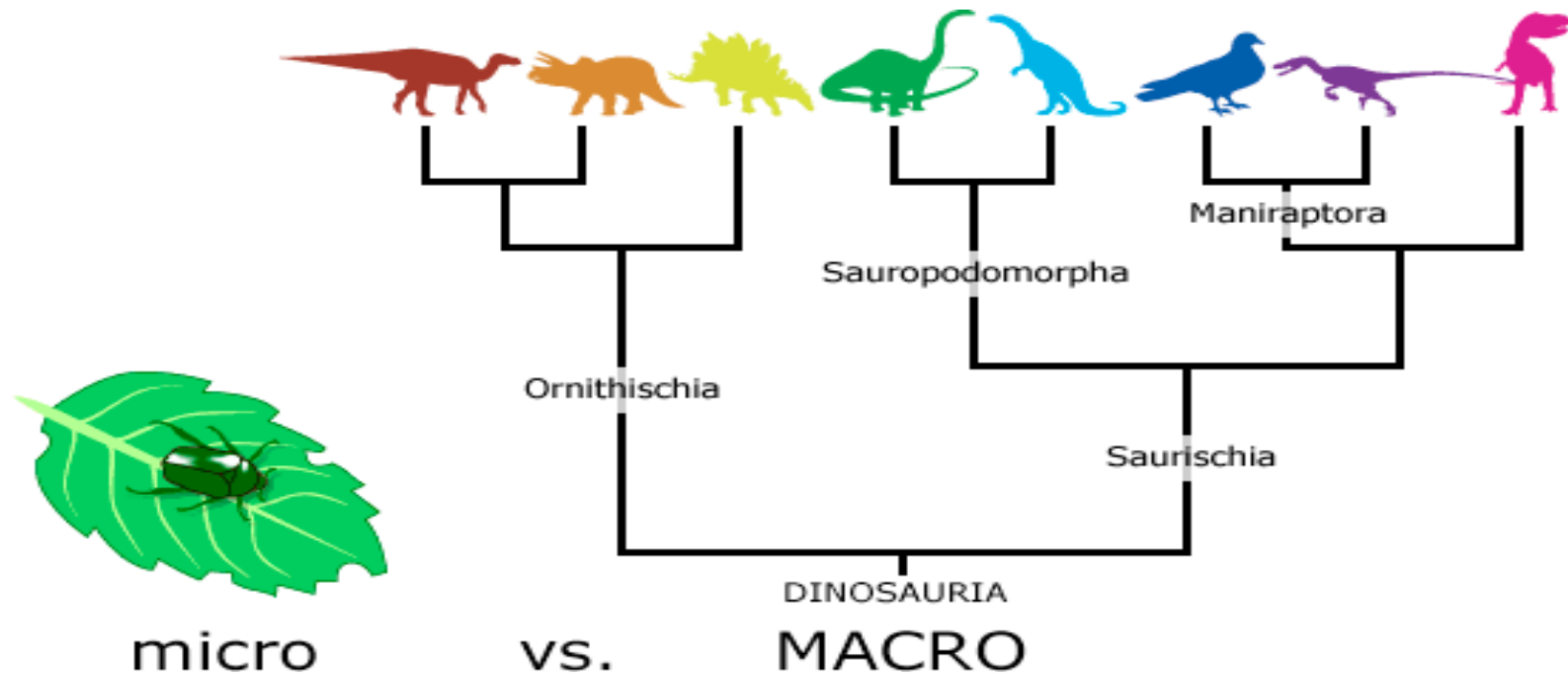
- Definition and Concept
- Study of concern
- Advantages and characteristics
- Examples of Micro and Macro economy
- Micro and Macro economy curve
- Difference between Micro and Macro economy

<https://www.youtube.com/watch?v=Zhl9Vv3P9mA>

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# What is Micro and Macro?



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# Definition - Micro economy

Study of the economic behavior of individual units of an economy (such as a person, household, firm or industry) and not of aggregate economy.

"Micro Economics is the study of particular firm, particular household, individual prices, wages, incomes, individual industries and particular commodities.

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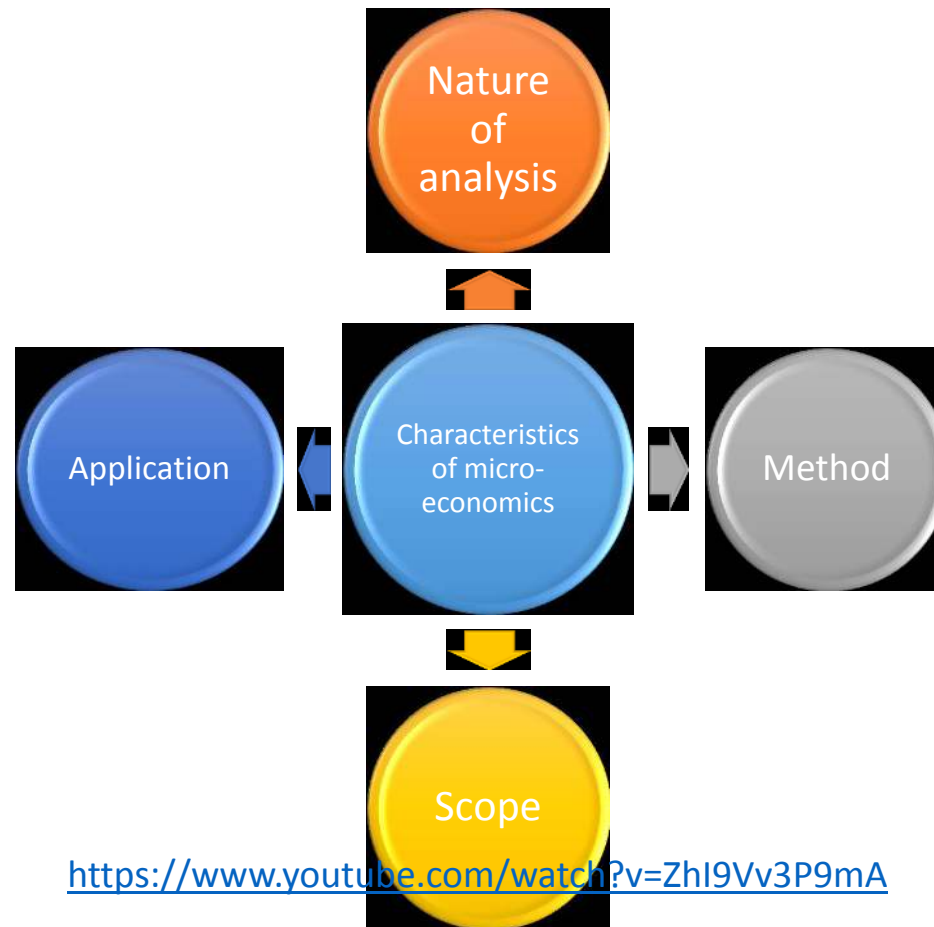
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# Microeconomics is concerned with

- Supply and demand in individual markets
- Individual consumer behavior. e.g. consumer choice theory
- Individual labour markets – e.g. demand for labour, Wage determination
- Externalities arising from production and consumption.

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# Characteristics of Micro-economics



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## Nature of analysis:

Individual consumers and purchaser are analyzed in detail.

e.g. Analysis of the income of household “A”

Analysis of shop industry etc.

## Method:

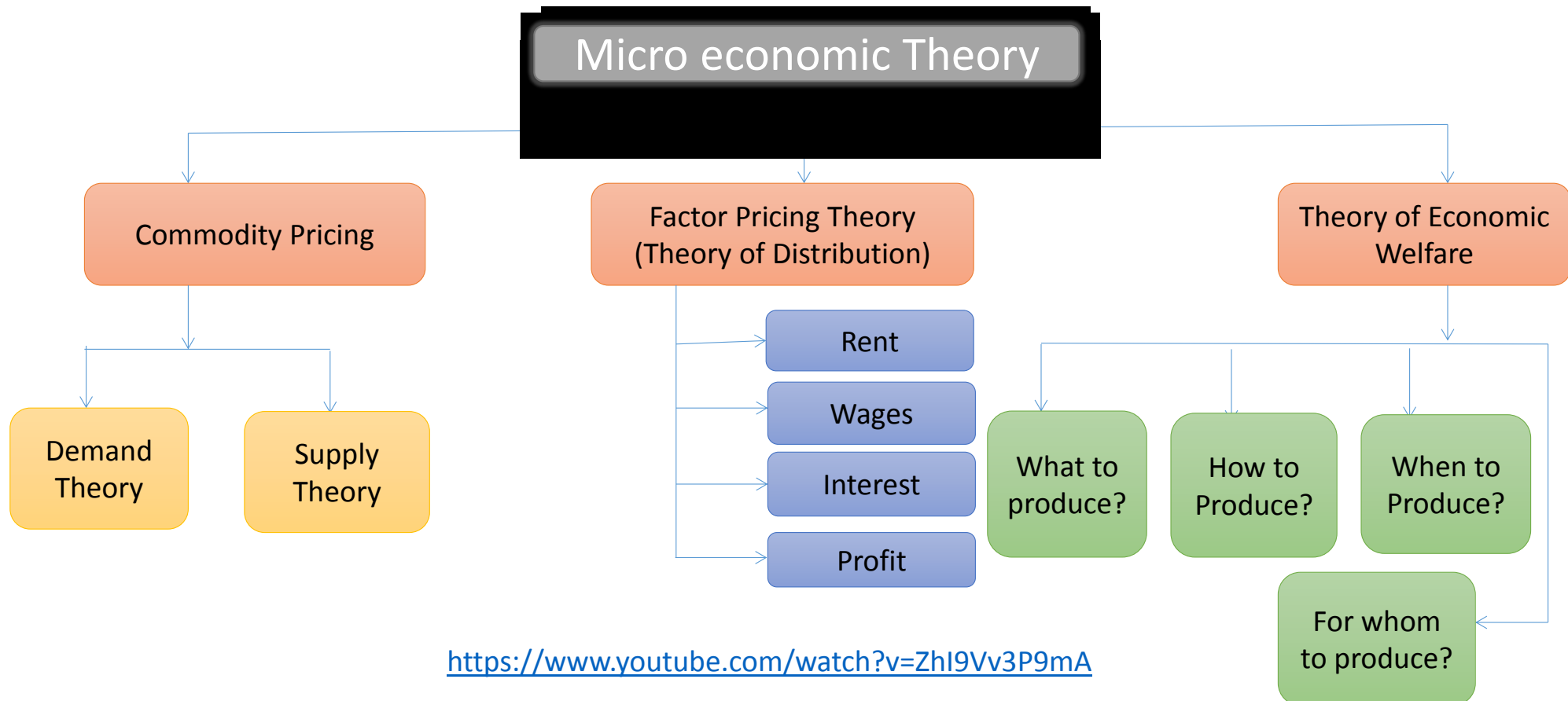
Slicing method is used in micro-economics.

Divides economy in small parts and then detail analysis is taken place.

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# Scope of Micro-Economics



# Applications

Applicable in both way i.e.

1. Practically
2. Theoretically

Useful to formulate policies, resource allocation, public finance, international trade etc.

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# Advantages of Micro-economy:

Individual behavior analysis

Resource allocation

Price mechanization

Economic policy

Free enterprise industry

Public finance

Foreign trade

Social welfare

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# Micro economics is also called as **Price Theory**

the process of allocation of economic resources along alternative lines of production on the bases of relative prices of various goods and services.

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# Definition - Macro-economics

Macro economy is study of the behavior of whole (aggregate) economies or economic system instead of the behavior of individuals, individual firms or market. It studies aggregate demand, aggregate supply, national income etc.

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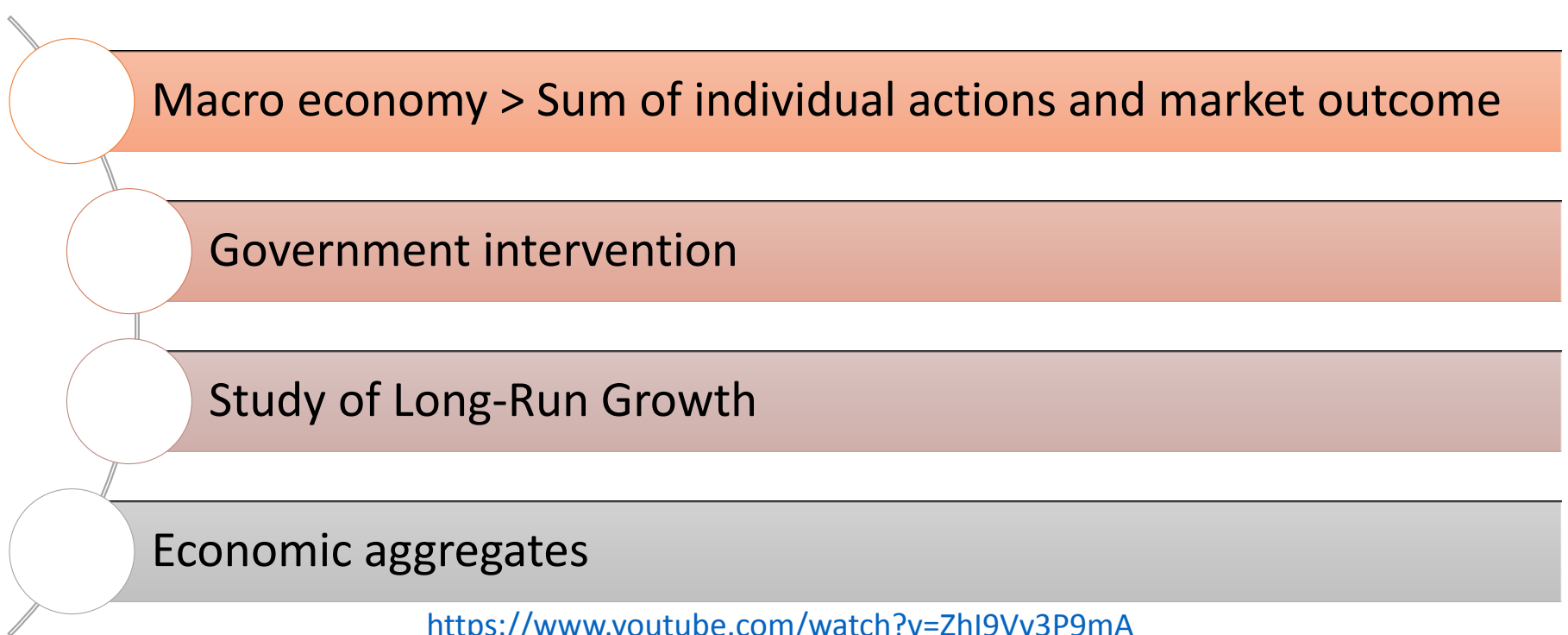
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# Macro-economics is concerned with

- Monetary / fiscal policy. e.g. what effect does interest rates have on whole economy?
- Reasons for inflation, and unemployment
- Economic Growth
- International trade and globalization
- Reasons for differences in living standards and economic growth between countries.
- Government borrowing

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# Four principal ways that microeconomics differs from macroeconomics



Macro economy > Sum of individual actions and market outcome

Government intervention

Study of Long-Run Growth

Economic aggregates

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# Macro economics is also called as **Income theory**

Changing levels of national income in any economy during any particular period of time.

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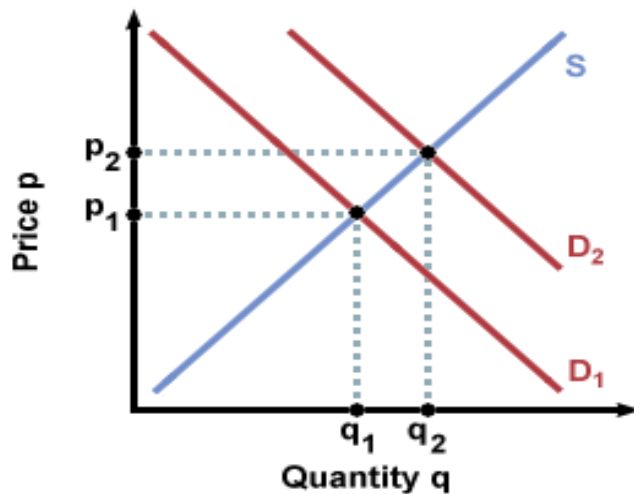
# Examples of micro and macro economic concerns

Divisions of economics	Production	Prices	Income	Employment
Micro-economics	Production and output in individual industries and businesses How much steel How much office space How many cars	Price of individual goods and services  Price of medical care Price of gasoline Food prices Apartment rents	Distribution of income and wealth  Wages in the auto industry Minimum wage Executive salaries	Employment by individual businesses and industries Jobs in the steel industry Number of employees in a firm
Macro-economics	National production/output Total industrial output Gross domestic product Growth of output	Aggregate price level	National income	Employment and unemployment in the economy Total number of jobs Unemployment rate

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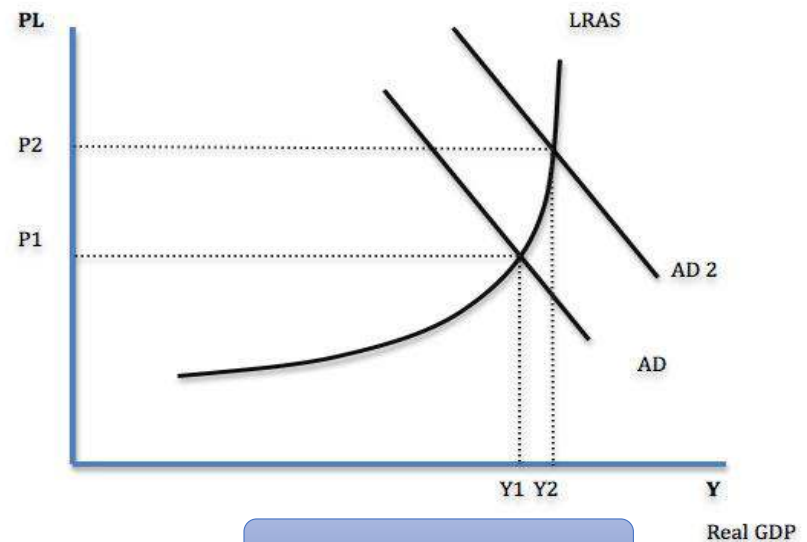
# Micro and Macro economy curve

Increase demand leads to higher quantity and higher price.



Micro

It is looking on Real GDP, which is the total amount of output produced in the economy instead of quantity.



Macro

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<https://www.youtube.com/watch?v=ZhI9Vv3P9mA>

# Difference between Micro and Macro economics

## Microeconomics

Economic decision-making of an individual agents

Small components of economy

Price-determination process of individual products and factors of production

Price theory

Optimization goals of individual consumers or producers

Studies factors of production from any individual owner of resources to any individual user of resources.

Helps to formulate appropriate policies for resource allocation at the firm level.

## Macroeconomics

Aggregates and average of an economy

Economy as a whole of any country.

Deals with general price level of any economy

Income theory

Optimization of growth process of entire economy

Studies circular flow of income and expenditure between different sectors of economy.

Helps to formulate appropriate policies for controlling inflation and unemployment etc.

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