MICROECONOMICS AND MACROECONOMICS

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Microeconomics and macroeconomics are two approaches to economic problems and economic analysis. These terms were first coined and used by Ragnar Frisch in 1933 and have now been adopted by economists the entire world over.

“Microeconomics studies the economic action of a particular individual and well defined group of individuals, i.e., household, firms industries, etc. and macroeconomics studies the broad aggregate, such as total employment, total consumption, and all industries, particular commodities.”

Meaning of Microeconomics

According to Boulding, “Microeconomics is the study of particular firms, particular households, individual prices, wages, incomes, individual industries, particular commodities.

According to Prof. Gardener Ackley, “Microeconomics deals with the division of total output among industries, products and firms and the allocation of resources among competing groups. It considers problems of income distribution. Its interest is in relative prices of particulars goods and services,”
According to Prof. Lerner, “Microeconomics consists of looking at the economy through a microscope, as it were, to see how the millions of cells in the body economic-the individuals or households as consumers, and the individuals or firms as producers-play their part in the working of the whole economic organism.’

From the above definitions, it is clear that under the microeconomics we study particular economic organism; for instance, individual prices, wages or incomes; economic behaviour of individual consumers and producers, etc.

Under the microeconomics, following theories are studied:

3. Theory of Economic Welfare

Thus, the study of microeconomics clears the economic status of the individual units. It helps us in determining the remuneration of individual units.

Types of Microeconomics

Microeconomics has been divided into following three types:

1. Simple Micro-statics: It studies different microeconomic variables and their relationship at a given point of time under the conditions of equilibrium. It assumes that the values of microeconomic variables will remain unchanged and for this reason a simple micro-static model does not involve time period.

For example, the equilibrium price of a commodity in the market is established at a point where the demand is equal to the supply. Now, as long as the demand function DD and supply function SS, as shown in Fig. 1, remain unchanged.
2. **Comparative Micro-statics**: It compares the equilibrium positions at different points of time. In micro-statics, we assume that there is no change in the independent variable, the demand function or the supply function or both will shift and the market will reach a new state of equilibrium giving a new price. This new equilibrium position will also be studied under micro-statics. But in comparative micro-statics, we compare the two equilibrium positions and will throw no light on the process by which the new equilibrium has been arrived at.
It has been shown in Fig. 2. The old equilibrium point is E. Due to a change in some independent variable, the demand function shifts upward from DD to D1D1. It results in a new equilibrium position at E, where the price is OP and quantity demanded and supplied is OQ. These two equilibrium positions are compared by the compared micro-statics.

3. **Micro dynamics**: It explains lagged relationship between the microeconomic variables.

Micro dynamics throws full light on the happenings in the market during the period of transition from static equilibrium to another. It is a study of disequilibrium. More specifically, it studies the process through which the new equilibrium in the market is established. The cobweb Model is used to explain the dynamics of demand, supply and price over long periods of time. As prices move up and down in cycles, quantities produced also seem to move up and down in a counter cycle manner.

**Uses of Microeconomics**

The main uses of microeconomics are the following:

1. Useful to understand the function of Whole Economy
2. Helpful for Individual Decision
3. Helpful to understand Price determination and allocation of Resources
4. Useful to the Determination of Economic Policy
5. To Evaluate Economic Welfare Conditions
6. Helpful in Optimum utilisation of factors of Production

Hence we can say that microeconomics provides such important tools which are helpful in determining the optimum mix of commodities and optimum distribution of income among the factors of production. Therefore, microeconomics is an important branch of economic analysis.
Limitations of Microeconomics:

As we have seen that microeconomics is very useful in economic analysis, yet it has its own limitations. The important limitations are the following:

1. Unable to focus the Correct Figure of Whole Economy
2. Based on unrealistic Assumptions
3. The Whole Conclusions Draw from Micro Analysis may not Applicable to Whole Economy
4. It is not possible to Study Some Economic Problems through Micro Economics

In spite of these limitations, microeconomics possesses its own importance. It is widely used in the problems of macroeconomic analysis

Macro Economics

Meaning of macroeconomics

According to Boulding, “Macroeconomics deals not with individual quantities, as such, but with aggregates of these quantities; not with individual incomes, but with national income; not with individual prices, but with price level; not with individual outputs, but with national output.

He further states that “Macroeconomics is that part of the subject which deals with the great aggregates and averages of the system rather than a particular item in it, and attempts to define these aggregates in a useful manner and to examine their relationship.”

From this definition, it is clear that macroeconomics concerns itself with those aggregates which-relate to the whole economy. Macroeconomics also discusses the sub-aggregates of the large aggregates relating to the whole economy, but these sub-aggregates, unlike the aggregates of microeconomics which examine aggregates relating to a particular product, a particular industry or a particular market, cut across various product and industry.
Under the macroeconomics, following theory include:

2. Theory of Prices: Inflation, Deflation and Reflation
3. Theory of Economic Growth
4. Macro theory of Distribution

Types of Macroeconomics

Macroeconomics has been divided into following three types:

1. Simple Macrostatics: It studies relationships between macroeconomic variables in a stationary situation. It is concerned with equilibrium points and not the process through which it is attained. Hence, macroeconomics deals with the final equilibrium of the economy at a particular point of time. For example, the position of final equilibrium can be shown by the following Keynesian equation:

   \[ Y = C + I \]

   Where \( Y \) = Total Income, \( C \) = Total Consumption, \( I \) = Total Investment

   This equation explains the relationship between three macroeconomic variables \( Y \), \( C \) and \( I \). the equality between \( Y \) and \( C + I \) indicate the equilibrium position. It does not involve the study of time analysis.

2. Comparative Macrostatics: It involves a comparative study of different macro static equilibrium positions which are attained by the economy. But it does not study the process of adjustment by which the economy shifts from one equilibrium position to another equilibrium position.

3. Macrodynamics: it studies the process through which a new equilibrium is established after a change in independent macroeconomic variables. According to Prof. Kurihara, “Macroeconomics enables to separate the process of trial and error into a series of continuously changing reactions and indicates the cause and effect.
It analyses the discrete or continuous changes of aggregates, the sequence of causes and effect events arising from some initial change and the time paths (roots) of income at various points of time, and, therefore, involves period analysis.

**Uses of Macroeconomics**

1. Important in Determination of Economic Policies of the Government
2. Economic Planning
3. Development of Microeconomic Theories
4. International Comparisons
5. The Necessity of Separate Knowledge of the Aggregates

The study of macroeconomics is useful in both theory and practice.

**Limitations of Macroeconomics**

In spite of the growing popularity of macroeconomics is not free from its limitations. The important limitations are as follows:

1. It is not better to draw the macroeconomics results on the basis of Aggaragtes of individuals units.
2. Not consider the internal structure of groups
3. Not availability of homogenous groups
4. It is possible that one group is not equally influenced the whole Economy
5. Difficulties in measurement of groups

**Interdependence of Micro and Macroeconomics**

Microeconomics deals with the division of total output among industries, products and firms and the allocation of resources among competing uses, i.e., it deals with the behaviour of individual units. On the other hand, macroeconomics deals with economic affairs in “the large”, i.e., with the aggregates of individual decision making units. Therefore, the two branches seem to be independent of each other.
Prof. Samuelson has rightly expressed this relationship in the following words: “There is really no opposition between micro and macroeconomics. Both are absolutely vital. And you are only half educated if you understand the one while being ignorant of the other.”

**Reference**

H.L.Ahuja :- Advanced Economics Theory

H. S. Agrawal :- Microeconomic Theory

M.L. Jhingan :- Advanced Economics Theory

M.L. Seth:- Economics

**Assignment**

1. Distinguish between microeconomics and Macroeconomics. Explain the uses and limitations of micro and macroeconomic analysis.
Quiz

i. Macroeconomics is the study of
   (a) Individual economic units
   (b) Economy as a whole
   (c) Price theory
   (d) All of these

ii. Microeconomics is the study of
    (a) Individual economic units
    (b) Economy as a whole
    (c) Price theory
    (d) All of these

iii. Theory of Income, Output and employment are the study in
     (a) Microeconomics
     (b) Macroeconomics
     (c) Both
     (d) None of these

iv. The consumer behaviour is the study in
    (a) Microeconomics
    (b) Macroeconomics
    (c) Both
    (d) None of these

v. Importance of Microeconomics is helpful in
   (a) Individual decision
   (b) To understand Price theory
   (c) Policy making
   (d) All of these

****Thankyou****