Assignment no. 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 resources:
a) Micro economics b) Macro economics
c) Econometrics d) None of these
options :- 1) a, b and c 2) a and b
3) only a 4) None of these
→ 2) a and b

2) Concepts studied under Micro economics.
a) National income b) General price level
c) Factor pricing d) Product pricing
options :- 1) b and c 2) b, c and d
3) a, b and c 4) c and d
→ 4) c and d

3) Method adopted in micro economic analysis.
a) Lumping method b) Aggregative method
c) Slicing method d) Inclusive method
options :- 1) a, c and d 2) a, b and d
3) only c 4) only a
→ 3) only c

4) Concepts studied under Macro economics.
a) Whole economy b) Economic development
c) Aggregate supply d) Product pricing
options :- 1) a, b and c 2) b, c and d
3) only d 4) a, b, c and d
→ 1) a, b and c

Scanned with CamScanner

PAGE NO.
DATE:

Q.2 Complete the correlation :

1) Micro economics : Slicing method :: Macro economics : Lumping method

2) Micro economics : Tree :: Macro economics : Forest

3) Macro economic theory : Income and employment :: Micro economics : Price theory

4) Makros : Macro economics :: Mikros : ~~Lur~~ Micro economics

5) General equilibrium : Macro economics :: Partial equilibrium : Micro economics.

Q.3 Identify and explain the concepts from the given illustrations :-

1) Gauri collected the information about the income of a particular firm.

→ ~~ex~~ Identification :- micro economics

explanation :- Micro economics is the study of the behaviour of small individual economic units, like individual firm, individual price, individual household etc.

2) Ramesh decided to take all decisions related to production, such as what and how to produce?

Scanned with CamScanner

→ Identification : Free Market Economy

explaination :- A free market economy is that economy where the economic decisions regarding production of goods, such as 'What to produce ?, How much to produce ?, How to produce ? etc.' are taken at individual levels.

3) Shabana paid wages to workers in her factory and interest on her bank loan.

→ Identification : theory of factor pricing

explaination : In macro economics land, labour, capital entrepreneur are the factors that contribute to the production process, micro economics helps in determining the factors rewards for land, labour, capital and entrepreneur in the form of rent, wages, interest and profit respectively.

Q.4 Answer the following :

1) Explain the features of Micro economics.

→

Features of Micro economics.

1) Study of Individual Units
2) Price Theory
3) Partial Equilibrium
4) Based on Certain Assumption
5) Slicing Method
6) Use of Marginalism principle.
7) Analysis of Market structure
8) Limited Scope

Scanned with CamScanner

Scanned with CamScanner

PAGE NO.:
DATE: / /

1) Study of Micro Individual Units :- Micro economics is the Study of the behaviour 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.

4) Based on Certain Assumptions :- Micro economics begins with the fundamental assumption "Other things remaining constant" such as perfect competition, pure capitalism, full employment etc.

5) Slicing Method :- Micro economics uses slicing. It splits or divides the economy into small individual units and then studies each unit separately in detail.

6) Use of Marginalism Principle :- The concept of Marginalism is the key tool of micro economic analysis. Producers and consumers take economic decisions using this principle.

7) Analysis of Market structure :- Micro economics analyses different

Scanned with CamScanner

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 payaments, poverty, unemployment etc.

2) Explain the importance of Macro economics.

→ Importance of Macro economics

1) Functioning of an Economy
2) Economic Fluctuations
3) National Income
4) Economic Development
5) Performance of an Economy
6) study of Macro economic variables.
7) Level of Employment.

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 aggregative variables in a large and complex economic system.

2) Economic Fluctuations :- Macro economics helps to analyse the cause 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

Scanned with CamScanner

PAGE NO.:
DATE: / /

has brought forward the immense importance of the study of national income and social accounts.

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.

5) Performance of an Economy :- Macro economics helps us to analyse the performance of an economy. National Income (NI) estimates are used to measure 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 economic variables such as behaviour of total income, output, employment and general price level in economy.

7) Level of Employment :- Macro economics helps to analyse the general level of employment and output in an economy.

Scanned with CamScanner

3) Explain the scope of Macro economics.

→ Scope of Macro economics

- Theory of Income and Employment
  - Theory of consumption Function
  - Theory of Investment Function
    - Theory of Business cycles
- Theory of General price level and Inflation
- Theory of Economic Growth and Development
- Macro Theory of Distribution

1) Theory of Income and Employment :- Macro economic analysis explains which factors determine the level of national income and employment and what causes fluctuations in level of income, output and employment. Theory of Business cycles is also a part and parcel of the Theory of Income and Employment.

2) Theory of General price level and Inflation :- Macro economic analysis shows how the general price level is determined and further explains what causes fluctuations in it. The study of general price level is significant on account of problems created by inflation and deflation.

3) Theory of Growth and development :- Macro economics

consists of the theory of economic growth and development. It explains the causes of underdevelopment and poverty. It also suggests strategies for accelerating growth and development.

4) Macro Theory of Distribution :- Macro theory of distribution deals with the relative shares of rent, wages, interest and profit in the total national income.

Q.5 State with reason whether you agree or disagree with the following statements

1) The scope of micro economics is unlimited.

→ I agree with this statement.

1) Micro economics is study of individual's behavior and their decisions in the economy.
2) The economy is involved with production of goods and services.
3) The goods and services are produced for the welfare of the people and for satisfying their needs.

Therefore, the scope of micro economics is unlimited.

2) Macro economics deals with the study of individual behaviour.

→ I disagree with this statement.

Resons :

PAGE NO
DATE : / /

1) Micro economics studies the behaviour of individual unit of an economy.
2) Macro economics studies the behaviour of aggregates of the economy as a whole.
3) Macro economics is not deals with the study of individual behaviour.

---

3) Macro economics is different from micro economics.

→ Yes, I agree with this statement.

Reasons :-

1) Micro economics studies the behaviour of individual unit of an economy.
2) Macro economics studies the behaviour of aggregates of the economy as a whole.
3) Micro economics scope is unlimited and Macro economics scope is limited.

Therefore, Macro economics is different from micro economics.

---

4) Micro economics uses slicing method.

→ Yes, I agree with this statement.

Reasons :-

1) Micro economics deals with the study of individual units of the economy.
2) It takes into accounts the demand and supply of individual units.
3) It divides the economy in slices, parts or individual units for purpose of in depth study.

hence, Micro economics uses Slicing method.

5) Micro economics is known as Income theory. ~~No, I do not agree with this statement~~

→ 1) The micro economics includes the theory of product and factor pricing.

2) The macro economics includes the income theory and employment theory.

3) hence, the micro economics is not known as Income theory.

Therefore, the micro economics is known as Price theory.

Q.6. Answer in detail:

1) Explain the importance of Micro economics.

→ Importance of Micro economics
1) Price Determination
2) Free Market Economy
3) Foreign Trade
4) Economic Model Building
5) Business Decisions
6) Useful to Government
7) Basis of Welfare Economics

1) Price Determination :- Micro economics explains how the prices of different products and various factors of production are determined.

2) Free Market Economy :- Micro economics helps in understanding the

PAGE NO.:
DATE: / /

working of a free market economy.

3) Foreign Trade :- Micro economics helps in explaining various aspects of foreign trade like effects of tariff on a particular commodity, determination of currency exchange rate of any two countries, gains from international trade to a particular country etc.

4) Economic Model Building :- micro economics helps in understanding various complex economic situations with the help of economic models.

5) Business Decisions :- Micro economics theories are helpful to businessmen for taking crucial business decisions. These decisions are related to the determination of cost of production, determination of prices of goods, maximization of output and profit.

6) Useful to Government :- It is useful to government in framing economic policies such as taxation policy, public expenditure policy, price policy etc.

7) Basis of Welfare Economics :- Micro economics explains how best results can be obtained through optimum utilization of resources and its best allocation.

2) Explain the concept of Macro economics and its features.

→ Meaning :- macro economics studies the behaviour of aggregates of the economy as a whole.

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

Diagram :-

Features of Macro economics
1) Study of Aggregates
2) Income theory
3) General Equilibrium Analysis
4) Interdependence
5) Lumping Method
6) Growth Models
7) General Price Level
8) Policy - oriented

Features of Macro economics :-

1) Study of Aggregates :- Macro economics deal with the study of economy as a whole. It is concerned with the aggregate concepts such as national income, national output, national employment, general price level, business cycles etc.

2) Income Theory :- Macro economics study the concepts of national income, its different elements, methods of measurement. and social accounting.

3) General Equilibrium Analysis :- Macro economics deals with the behaviour of large aggregates and their functional relationship. General equilibrium deals with the behaviour of demand, supply

Scanned with CamScanner

and prices in the whole economy.

4) Interdependence :- Macro analysis takes into account interdependence between aggregate economic variables, such as income, output, employment, investments, price level etc.

5) Lumping Method :- Lumping method is the study of the whole economy rather than its part. According to Prof. Boulding, "Forest is an aggregation of trees but it does not reveal the properties of an individual tree".

6) Growth Models :- Macro economics studies various factors that contribute to economic growth and development. It is useful in developing growth models.

7) General Price Level :- Determination and changes in general price level are studied in macroeconomics. It is the average of all prices of goods and services currently being produced in the economy.

8) Policy - oriented :- According to Keynes, macro economics is a policy oriented science. It suggest suitable economic policies to promote economic growth, generate employment, control of inflation and depression etc