

DAY-1

# INTRODUCTION TO MACROECONOMICS & MICROECONOMICS

FEBS, IIT BHUBANESHWAR  
[Secyfebs.sg@iitbbs.ac.in](mailto:Secyfebs.sg@iitbbs.ac.in)



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The course contains material for a total of 6 days. The materials are designed in such a way that it will give an overview to Macroeconomics. The materials designed as a part of bootcamp are self-explanatory. Video links have been added wherever needed. Team FEBS wishes you a happy learning!

For any queries please contact: [secyfebs.sg@iitbbs.ac.in](mailto:secyfebs.sg@iitbbs.ac.in)

All The Best!

Team FEBS

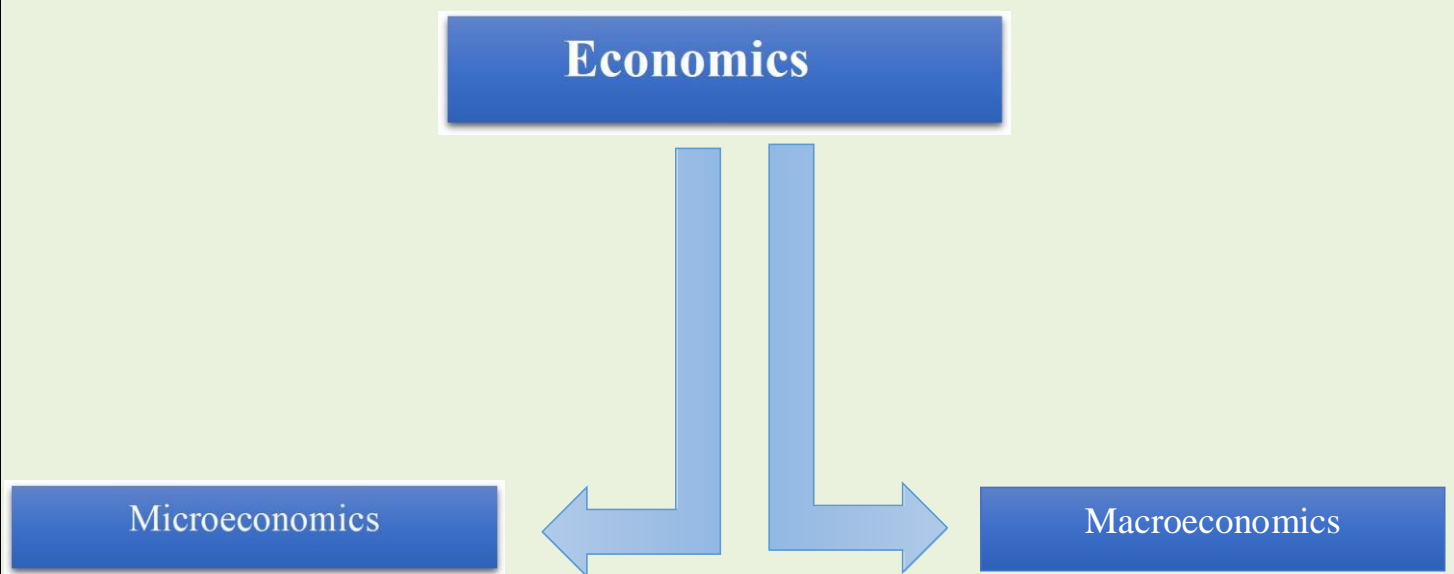
Society of Finance, Economics and Business

IIT Bhubaneswar.

## What is Economics?

Economics is a social science which deals with production, distribution and consumption of goods and services. Economics analyses the choices made by individuals, businesses and governments to allocate resources.

Economics is generally classified into two major categories Microeconomics and Macroeconomics.



# Microeconomics

Microeconomics is the study of individuals, households and firms' behaviour in decision making and allocation of resources. It generally applies to markets of goods and services and deals with individual and economic issues.

Some of the topics in microeconomics are:

- **Incentives and behaviours:** How people, as individuals or in firms, react to the situations with which they are confronted.
- **Utility theory:** Consumers will choose to purchase and consume a combination of goods that will maximize their happiness or “utility,” subject to the constraint of how much income they have available to spend.
- **Production theory:** This is the study of production—or the process of converting inputs into outputs. Producers seek to choose the combination of inputs and methods of combining them that will minimize cost in order to maximize their profits.
- **Price theory:** Utility and production theory interact to produce the theory of supply and demand, which determine prices in a competitive market. In a perfectly competitive market, it concludes that the price demanded by consumers is the same supplied by producers. That results in economic equilibrium.

# Macroeconomics

Macroeconomics is a branch of economics that studies how an overall economy—the market or other systems that operate on a large scale—behaves.

Macroeconomics studies economy-wide phenomena such as inflation, price levels, rate of economic growth, national income, Gross Domestic Product (GDP), and changes in Unemployment.

The two main areas of macroeconomic research are long-term economic growth and shorter-term business cycles.

A case on Macroeconomics:

Let us look at the case of COVID-19 pandemic .The COVID-19 pandemic has resulted in an unprecedented decline in global activity.The intensifying pandemic in developed and emerging economies led to stringent lockdowns and large disruptions in economic activity at an extraordinary speed and scale For instance, the global GDP declined by more than 4.9% in the second quarter of 2020 due to economic disruption. The COVID-19 pandemic also lead to crash in Financial Markets all over the World. The Markets around the world fell about 30% which started on March 9, 2020.

## **Major Theories in Macroeconomics-**

- Theory of Income and Employment
- Theory of General Price Level and Inflation
- Theory of Economic Growth
- Theory of Distribution

## **Importance of Macroeconomics**

- 1. It gives an overall view of the growing complexities of an economic system. It provides powerful tools to explain the working of the complex economic systems.
- 2. It provides the basic and logical framework for formulating appropriate macroeconomic policies (e.g., for inflation, poverty, unemployment, etc.) to direct and regulate economy towards desirable goals.
- 3. It helps in analyzing the reasons for economic fluctuations and provide remedies.

BASIS	MACROECONOMICS	MICROECONOMICS
<b>Definition</b>	Macroeconomics is a branch of economics that studies how an overall economy- the market or other systems that operate on large scale behaves	Microeconomics is that part of economic theory which studies the individual units of economy.
<b>Tools of analysis</b>	GDP, Inflation Index, CPI, unemployment levels.	Scarcity, supply & demand, cost & benefits and incentives
<b>Main Objective</b>	To determine the national wealth , economic growth.	To determine price of a commodity or factors of production
<b>Basic Assumption</b>	It assumes all other micro variables constant and only focusing on one affecting most. This is called Ceteris Paribus (holding other thing constant in Latin). Examples: minimum wages, supply of money etc.	The microeconomics model of supply and demand assumes that the markets are perfect. It means that there are large number of buyers and sellers in the market, and none of them can influence the price of products and services significantly.
<b>Examples</b>	National Income	Revenue of a firm

## More on Demand and supply:

[https://youtu.be/8JYP\\_wU1JTU](https://youtu.be/8JYP_wU1JTU)

## Must watch video on Macroeconomics:

<https://youtu.be/MKO1icFVtDc>