MICROECONOMICS-I Introduction

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Overview

What is economics?

- ✓ Definition
- ✓ Why do we study economics
- ✓ Concept of Market, different types of market
- ✓ Concept of value
- ✓ The world of economics
  - ➢ Microeconomics vs. Macroeconomics
  - ➢ Positive economics vs. Normative economics

Unlimited wants

→

Satisfy by consuming goods and services

Income
(limited)

Production
(resources)

Scarcity and Social Choice

- ❑Society faces scarcity of resources.
- ❑Categories of resources:
  - ✓Land (natural resources)
  - ✓Labor
  - ✓Capital
    - (a) Human capital
    - (b) Physical Capital
  - ✓Entrepreneur

Social choices

1. What to produce?

2. How to produce?

3. For whom to produce?

What is Economics?

Economics deals with scarcity and choices and finds the best way to achieve these targets with the help of limited resources.

- It is sometimes referred to as the "*Science of Scarcity*".

Please Note:

1. Scarcity is a relative concept- **time dependent** and **contextual**.

2. Choices made in the *market* comes under the purview of Economics.

That means, choices that involve exchange between two parties comes under the purview of Economics.

Concept of Market

- Markets may not be confined to a particular geographical location.

- Two parties in market- buyer & seller- may not meet each other.

Free versus regulated market

- Transaction is not influenced by some other party

“**Invisible Hand**” of Adam Smith (1776)

- Regulated: when determined by government/some other agent

Perfectly vs Imperfectly competitive Market

Perfectly competitive market

- **Atomistic**- all economic agents “individually” carry out very insignificant proportions of total transactions.

  They are too small to influence market price.

- **Anonymity**- no prior/private relation.

Exchange value versus Use value

- Market attaches value to a particular **transaction- exchange value/price.**
- **Use value**- follows from usefulness of a good
- **Diamond-water paradox or Value paradox:** Goods with high use value may not have exchange value or have very less exchange value. Suppose diamonds were available like pebbles, how many of you would desire a diamond?

Microeconomics

- ❑**Micro** comes from the Greek word *mikros,* meaning “small”.
- ❑Studies the behavior of ***individual*** **economic agents** (households, firms, and governments).
- ❑Focuses on individual parts of an economy.
- ❑Microeconomics can also deal with aggregates like market demand or market supply but those aggregates are derived from individual.

Two approaches :

- **Partial Equilibrium-** under "***ceteris paribus***" (Latin phrase which means **all other things remaining unchanged**).

- **General Equilibrium**- studies interaction among different markets.

Macroeconomics

- **Macro** comes from the Greek word *makros*, meaning "**large**"
- Deals with aggregate
- Studies the behavior of the overall economy.

Latest approach

- Micro-foundation of macroeconomics

  -The "*bottoms up*" approach

- Conventional macroeconomics

  - The "*tops down*" approach

Positive and Normative Economics

- **Positive economics**: *how* the economy works
  - Can be true or false;
  - Can be tested by looking at the facts.

- **Normative economics**: what *should be*
  - Value judgments, identify problems, and prescribe solutions;
  - Cannot be proved or disproved by the facts alone.

Course Objective: Content

- Foundation of Microeconomics: stress on the concepts
- Balanced with real world application.
- Approach: Use numerical examples using goods that are in the news and/or that students often purchase (or consume) such as mobile, food, textbooks, petroleum, and a college education.
- Path:
- Work hard to learn how to do economic analysis,
- Memorization will not get you through the course;
- To think like economists – you have to work out problems.
- Try to draw graphs.

Course Objective: Teaching

- Discussion about common mistakes by students or confusions: stress more on those topics from past teaching experience.
- Discussion on relevance and application of each topic.
- Practice problem on each topic.
- Interaction sessions (doubt clearing).
- Discussion on contemporary topics &/or economists.

Syllabus

Topic 1: Preliminaries

1. Definition of Economics
2. Scarcity and Trade-offs
3. The objective of Economics
4. The differences (and similarities) between Microeconomics and Macroeconomics
5. The difference between Positive and Normative Analysis
6. The concept of a market and the role prices play in allocating resources.

Topic 2: The Basics of Supply and Demand

Content :

- Supply and Demand: Laws, violations, functions
- The Market Mechanism
- Changes in Market Equilibrium
- Elasticities of Supply and Demand
- Short-Run versus Long-Run Elasticities
- Understanding and Predicting the Effects of Changing Market Conditions

Topic 3:Equilibrium

Content :

- Definition
- Properties of equilibrium: existence, uniqueness and stability
- Welfare analysis: concepts of surplus- consumer and producer surplus, deadweight loss
- Government Intervention

Topic 4: Theory of Consumer Behaviour

Content :

- Axiomatic approach
- Indifference curve
- Utility approach
- Optimum choice

Topic 5: Production

Content:

- Firms and Their Production Decisions
- Production with One Variable Input (Labor)
- Production with Two Variable Inputs
- Law of variable proportion
- Returns to Scale

Topic 6: The Cost of Production

Content :

- Measuring Cost: Which Costs Matter?
- Costs in the Short Run
- Costs in the Long Run
- Long-Run versus Short-Run Cost Curves
- Production with Two Outputs—Economies of Scope
- Dynamic Changes in Costs—The Learning Curve
- Estimating and Predicting Cost
- Production and Cost Theory—A Mathematical Treatment

References:

1. Intermediate Microeconomics by Hall R. Varian, Norton & Company.
2. Microeconomics: Theory and Applications by G. S. Maddala and Ellen M. Miller, McGraw Hill.
3. Microeconomics by Robert Pindyck and Dainel Rubinfeld, Pearson, 8th Edition.
4. Microeconomic theory : a mathematical approach by James Henderson and Richard Quandt.

Background Reading

1. Economics by Paul Samuelson and William Nordhaus

And the journey begins…