Demand and Supply

Lecture 1

microeconomics :

branch of economics that deals with the behaviour of individual economic units - consumers, firms, workers, and investors - as well as the markets that these units comprise.

macroeconomics :

branch of economics that deals with aggregate economic variables, such as level and growth rate of national output, interest rates, unemployment, and inflation

↳ how economy as a whole is functioning

↳ in micro, we study about small components in detail

limited amount of resources → led to the start of Economics

(income, time, natural resources) - - - → [how to make the most of out res.

associated maths :

↳ differentiation

↳ logarithms

↳ maxima / minima

TRADE - OFFS :

between many decisions, prioritizing one decision

consumers → limited income → consume now

→ consume in future

workers → when to enter the workforce

→ choice of employment

↓

hrs / week → labour - leisure trade-off

firms → what kind of products?

→ how much labour, machines?

↓

limited resources raw materials

✱ trade offs are everywhere

microeconomics → determines how prices are determined

centrally planned economy → prices are set by the government

market economy → interactions of [consumers, workers, firms] determine prices

buyers ⟷ sellers

⇓

determine price of a good

labour economy → workers ⟷ firms

PRICES AND MARKETS ↑

In economics also, there's equilibrium

THEORIES AND MODELS :

explanation ⟷ prediction

⇓

THEORIES

information from consumers and firms
by the time I compile all this
the choices of consumers have changed

model ⟶ mathematical representation of economic theory

positive analysis : analysis describing cause and effect

CAUSE → EFFECT

do x → y happens   do y → z happens

normative analysis : analysis examining questions of what ought to be

MARKET :

consumer and producer meets

arbitrage → buy at low price at 1 place ; sell at higher price at another place

* what kind of product are you selling ?

market

* be as specific as possible

* extent of a market
  - ↳ geographical
  - ↳ kind of product

TYPES OF MARKET :

↳ perfectly competitive market :

many buyers ; many sellers

eg. rice market in UP

single buyer / seller doesn't have any significant impact on price

market price price prevailing in a competitive market

market prices fluctuate over time

why is it important?

market definition → for companies to understand actual / potential competitors for products

→ public policy decisions

merger 2 powerful companies become one firm

① sells input → firm

② sells products → firm

↳ so no other company can enter the market

such a company can be very powerful and can fool consumers by charging exorbitant price ---→ govt. interferes and says that merging of these 2 companies cannot take place

nominal price absolute price of good unadjusted for inflation

real price price of a good adjusted for inflation

ex. assume that Indian govt spent ₹100 Cr in 1990 in health sector and in 2020 it spent ₹300 Cr

1990		2020
₹100 Cr	≠	₹300 Cr

Budget analysis can't compare like this

2020

1990

price inflation → 4 times

Rs 4 in 2020 = Rs 1 in 1990

Rs 300 Cr in 2020 = Rs 300/4 Cr = Rs 75 Cr in 1990 — Real value

Real price is relative to a time frame

Hence, the govt actually spent less

consumer price index :

what is heppening to the price as a whole

"take it to the real price in terms of one particular yerr"