

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 our res.

associated maths:

- ↳ differentiation
- ↳ logarithms
- ↳ maxima/minima

between many decisions, prioritizing one decision

TRADE - OFFS:

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
new materials

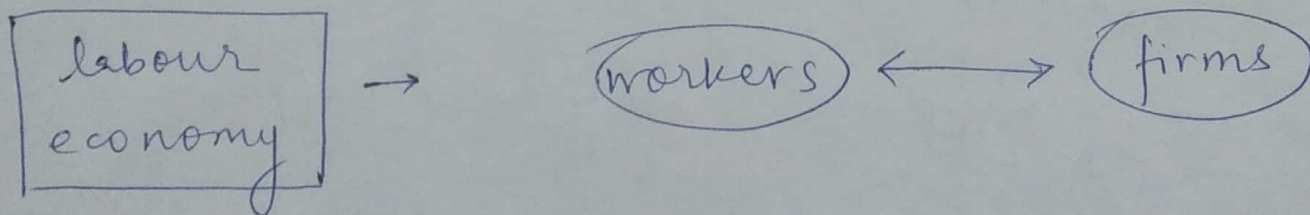
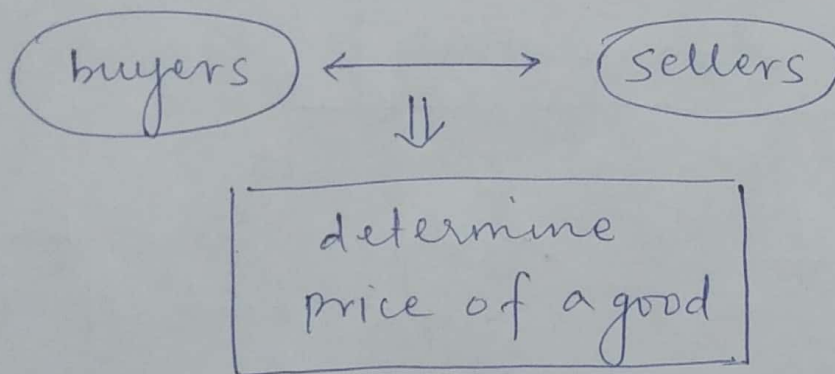
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trade offs are everywhere

microeconomics → determines how prices are determined

centrally planned economy → prices are set by the government

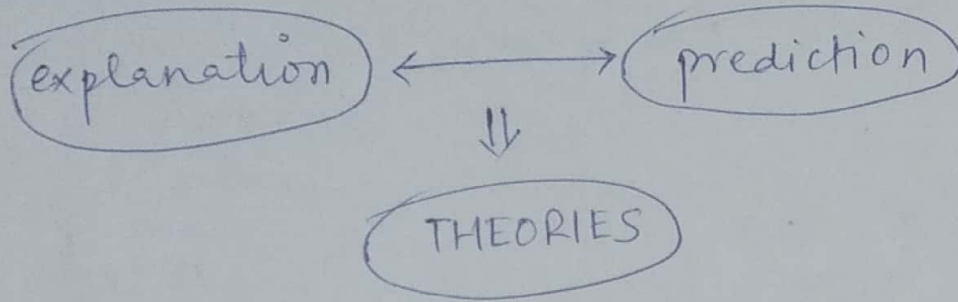
market economy → interactions of consumers, workers, firms determine prices



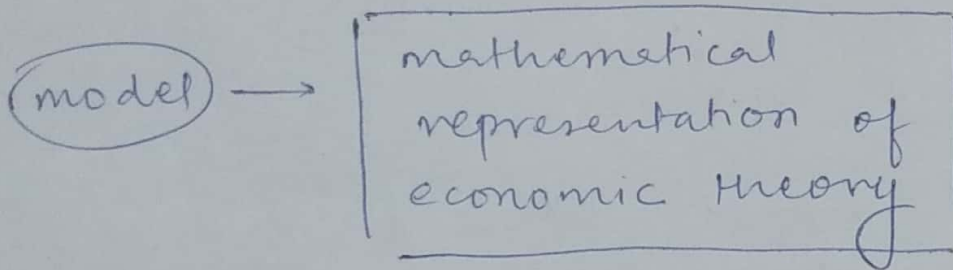
PRICES AND MARKETS ↑

In economics also, there's equilibrium

THEORIES AND MODELS :



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



positive analysis : analysis describing
cause and effect

CAUSE → EFFECT

do $x \rightarrow y$ happens

do $y \rightarrow z$ happens

normative analysis : analysis examining
questions of what
ought to be

MARKET :

consumer and producer meets

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

1990 2020
 ↗
 price inflation → 4 times

₹4 in 2020 = ₹1 in 1990

₹300 cr in 2020 = $\frac{₹300}{4}$ cr
 ₹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 happening to the price as a whole

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