



PRESIDENCY COLLEGE
(Autonomous)



*Reaccredited by
NAAC with A+*

Microeconomics

Theory & Assumptions of economic analysis



Presidency
Group

OVER
40
YEARS
OF ACADEMIC
WISDOM

PRESIDENCY COLLEGE

(AUTONOMOUS)

AFFILIATED TO BENGALURU CITY UNIVERSITY, APPROVED BY AICTE, DELHI & RECOGNISED BY THE GOVT. OF KARNATAKA

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Economic Decisions

the effect of a policy change

- a government program to educate unemployed workers,
- an increase in military spending, or
- an enhanced environmental regulation

******a single change may have multiple effects



Government's production of helium

- government production of helium for military purposes reduces the cost of children's birthday balloons,
- substitution (Alternate uses) of resources.
- There is reduction in demand for clowns reduces clowns' wages and thus reduces the costs of running a circus.
- This cost reduction increases the number of circuses, thereby forcing zoos to lower admission fees.
- Thus, were the government to stop subsidizing the manufacture of helium, the admission fee of zoos would likely rise.
- even though zoos use no helium.



The need for Assumptions.

- We look at the effects of a change, stating “other things equal,” that is, assuming nothing else changed.
- This isolates the effect of the change. In some cases, however, a single change can lead to multiple effects; even so, we will still focus on each effect individually.
- “other things equal” = “**ceteris paribus.**”

