

MICROECONOMICS

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TYPES OF OF ECONOMICS

TOPICS:

- 1. Microeconomics**
- 2. Macroeconomics**
- 3. Positive ECONOMICS**
- 4. Normative Economics**

(A) TYPES OF OF ECONOMICS

- In the context of allocation of scarce resources and taking decisions **“WHAT”, HOW and FOR WHOM TO PRODUCE”** economics has developed different ways to take these decisions . Most often the nature of the problem differs such as may be a small micro or a global macro level phenomenon. Similarly, there is difference of opinion whether the economist should only analyze an economic issue or should also prescribe the solution. These kinds of differences are addressed under different disciplines of economic known as **Microeconomics, Macroeconomics, Positive Economics and Normative economics**. Moreover, due to different characteristics of different sectors in an economy, without compromising on essence of the subject of economics under aforementioned FOUR categories, separate disciplines of economics such as Industrial Economics, Agricultural Economics, Educational Economics, Institutional Economics, Health Economics, Transport Economics, Energy Economics, Environmental Economics etc. etc. have evolved as separate disciplines of economics.

(B) MICROECONOMICS & MACROECONOMICS

The field of economics is typically divided into two main disciplines:

- (1) Microeconomics; and**
- (2) macroeconomics.**

Both Microeconomics and Macroeconomics give attention to individual markets. But in Microeconomics complete attention is paid to individual, single commodities, firm etc ; and in Macroeconomics it is aimed at explaining the movement of major economic aggregates—the level of total output, the level of employment, and the general price level etc.

(B1) Microeconomics:

Microeconomics is the branch of economics that focuses on the choices made by individual decision-making units in the economy—typically consumers and firms—and the impact of those choices on individual markets (e.g. the questions given below):

- How the price of a product is determined in the market?
- How the demand of a product is affected by a change in its price?
- Why an individual reduces its buying of a product due to increase in price?
- How a firm maximizes its profit ?
- How a consumer maximizes his utility?
- How different market structures affects the decision makings of a firm?

All such questions are Microeconomics related questions because they focus on individuals, individual business unit or markets in the economy.

(B2) Macroeconomics:

Macroeconomics is the branch of economics that focuses on the impact of choices on the total, or aggregate, level of economic activity. Examples given below *(Next Slide)*

are questions that deal with aggregates, or totals, in the economy and are the problems addressed by the macroeconomic :

(Next Slide)

.. (B2) Macroeconomics:

Examples

- Is the total level of economic activity rising or falling?**
- What is happening to the unemployment rate?.**
- Is the rate of inflation increasing or decreasing?**
- What is the total value of all goods and services produced in the economy.?**
- What are the factors that causes the average price level for the entire economy (i.e. inflation)?**
- How total exports of the economy are affected by thea change in exchange rate?**
- How the exchange rate of a country is determined viz a viz other currencies?**

(C) Positive & Normative Economics

- 1. Positive economics** and **Normative economics** are two standard branches of modern economics. **Positive economics** simply describes and explains various economic phenomena. On the other hand the **Normative economics** focuses on the value of economic fairness or what should be done.
- 2. To put it simply, Positive economics** is called the **"what is"** branch of economics. **Normative economics**, on the other hand, is considered the branch of economics that tries to determine the desirability of different economic programs and conditions by asking what **"should"** or what **"ought"** to be.
- 3. However, there is no inherent conflict in these two branches of economics.. A clear understanding of the difference between Positive and Normative economics helps in better policy-making i.e. policies should be based on a balanced mix of facts (Positive economics) and opinions (Normative economics).**

(C1) POSITIVE ECONOMICS:

- 1. According to economist Milton Friedman who popularized the Positive economics , the science of economic should only objectively analyze the data without any bias or agenda of suggestions.***
- 2. Positive economics focuses on the description, quantification, and explanation of economic developments, expectations, and associated phenomena. It relies on objective data analysis and relevant facts. It attempts to establish any cause-and-effect relationships or behavioral associations and thus help to ascertain and test the evolving economic theories.**

.....(C1) POSITIVE ECONOMICS:

3. Positive economics is objective and fact-based precise,

descriptive, and clearly measurable statements. These statements can

be measured against tangible evidence or historical instances. There

are no instances of approval-disapproval in positive economics.

4. For example "Government-provided free higher education increases

fiscal deficit." is a Positive economic statement. This statement is

fact-based and has no value judgment attached to it. Its validity can

(C2) Normative Economics

1. **Normative economics** focuses on value-based judgments aimed at improving economic development, investment projects, and the distribution of wealth. The whole discipline of Development Economics is **Normative Economics**.
2. **Normative economics** is subjective and value-based, based on personal perspectives or opinions involved in the decision-making process. The statements of this type of economics are rigid and prescriptive in nature. They often sound political, which is why this economic branch is also called "**what should be**" or "**what ought to be**" economics.
3. The example of Positive Economics in terms of **Normative economic** would change as : "**The government should not provide free education to all the citizens.**" - a value-based, having personal perspective, and satisfies the requirement of "**what should**" be.