**[Industrial Economics](https://en.wikipedia.org/wiki/Industrial_organization" \t "_blank)**

Industrial Economics is the study of firms, industries, and markets. It is a distinctive branch of economics which deals with the economic problems of the firms and the industries and their relationship with the society. It looks at firms of all sizes – from local corner shops to multinational giants such as WalMart or Tesco and also considers a range of industries, such as electricity generation, car production, and restaurants. It has both micro and macro aspect.

**Microeconomics:** Microeconomics focuses on the choices made by individual consumers as well as businesses concerning the fluctuating cost of goods and services in an economy. It covers aspects, such as

* Supply and demand for goods in different marketplaces.
* Consumer behaviour, as an individual or as a group.
* Demand for service and labour, including individual labour markets, demand, and determinants like the wage of an employee.

### Different Components of Microeconomics: It includes

* Market demand and supply (For example Textile)
* Consumer Behavior ( for example Consumer Choice Theory)
* Producers are driven by individual preferences.
* Market-specific labor markets

### Macroeconomics: Macroeconomics studies the economic progress and steps taken by a nation. It also includes the study of policies and other influencing factors that affect the economy as a whole. Macroeconomics follows a top-down approach, and involves strategies like –

* The overall [economic growth](https://www.vedantu.com/commerce/economic-growth) of a country.
* Reasons that are likely to influence unemployment and inflation.
* Fiscal policies are likely to influence factors like interest rates.
* Effect of globalization and international trade.
* Reasons that affect varying economic growths among countries.

### Different Components of Macroeconomics: It includes

National Output, Unemployment, Inflation

### Difference between Microeconomics and Macroeconomics

|  |  |  |
| --- | --- | --- |
| **S.No** | **Microeconomics** | **Macroeconomics** |
| **1.** | Microeconomics studies individual economic units | Macroeconomics studies a nation’s economy, as well as its various aggregates. |
| **2.** | Microeconomics primarily deals with individual income, output, price of goods, etc. | Macroeconomics is the study of aggregates such as national output, income, as well as general price levels. |
| **3.** | Microeconomics focuses on overcoming issues concerning the allocation of resources and price discrimination. | Macroeconomics focuses on  upholding issues like employment and national household income. |
| **4.** | Microeconomics accounts for factors like the demand and supply of a particular commodity. | Macroeconomics account for the aggregate demand and supply of a nation’s economy. |
| **5.** | Microeconomics offers a picture of the goods and services that are required for an efficient economy. It also shows the goods and services that might grow in demand in the future. | Macroeconomics helps ensure optimum utilization of the resources available to a country. |
| **6.** | Microeconomics helps to point out how equilibrium can be achieved at a small scale. | Macroeconomics help determine the equilibrium levels of employment and income of the nation. |
| **7.** | Microeconomics also focuses on issues arising due to price variation and income levels. | The primary component of macroeconomic problems is income. |

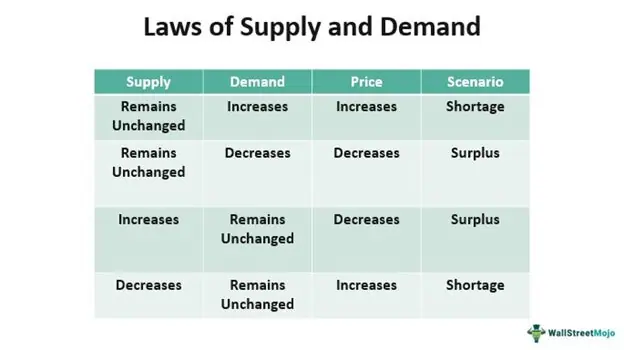
**Law of demand&supply**

The law of supply and demand refers to one of the core concepts in economics explaining the **relationship between demand, supply, and price** of products and services. It integrates the concepts of the law of demand and the law of supply.

In simple terms, while all other factors remain constant, the law of demand holds that when the price rises, demand falls.

At the same time, the law of supply states that when the price increases supply increases. The direct relationship between the price and supply creates an upward sloping supply curve

. At the same time, the inverse relationship between price and demand results in a downward sloping demand curve



**Demand increases, and supply remains the same**: In a competitive market, this will cause an increase in the price. The shortage of products increases the value of the product.

**Demand decreases, and supply remains the same**: In this situation, the price reduces. If the demand continues to decline, there will be a surplus of the product in the market, subsequently dampening the product’s value.

**Supply increases and demand remains unchanged:** The easy availability of a product causes a decrease in its price, manifesting an oversupply scenario if the demand remains intact for long.

**Supply decreases and demand remains unchanged:** When supply decreases, and there is no increase or decrease in demand, the price will increase.

**EXAMPLES**

The laws of supply and demand example can find in the electric cars market. Barely a decade or so ago, very few cars or models in supply were purely electric. Those that were (or which were hybrids) commanded high prices. Hence, the demand was also less.

As more and more people have started embracing electric vehicles mainly due to their environmentally friendly attributes, the demand started rising, the firms have drastically ramped up the production of the cars, and subsequently introduced lower-priced better-performing versions, even though battery supply bottlenecks are causing hindrance to the production. Furthermore, government subsidies

also made it cheaper to manufacture and purchase vehicles. As a result, the overall global market for EV increased significantly from 2010 to 2020

**What is an example of the law of supply and demand?**

A seller sets the price of its product at $5.00 in line with competitive pricing and enjoys a satisfying share of demand in the market. After a year, he doubled the price when no other competitors did. The result was no one wanted high-priced products, and demand declined.

**concept of elasticity**

Elasticity is a concept in economics that talks about the effect of change in one economic variable on the other.

Elasticity of Demand, on the other hand, specifically measures the effect of change in an economic variable on the quantity demanded of a product. There are several factors that affect the quantity demanded for a product such as the income levels of people, price of the product, price of other products in the segment, and various others.

Let’s begin our blog with a definition of Elasticity of Demand and then we will explore the different types of Elasticity of Demand.

Also, read our blog on 4 types of Elasticity in economics

**Elasticity of Demand**

Elasticity of Demand, or Demand Elasticity, is the measure of change in quantity demanded of a product in response to a change in any of the market variables, like price, income etc. It measures the shift in demand when other economic factors change.

In other words, the elasticity of demand is the percentage change in quantity demanded divided by the percentage change in another economic variable.

The demand for a commodity is affected by different economic variables:

1.Price of the commodity

2.Price of related commodities

3.Income level of consumers

**Elasticity:**

Elasticity plays a key role in determining the effect of changing prices on business revenue, the analysis of tax burden, the benefits of trade, and the effects of advertising. (For related reading, see [Economic Basics: Elasticity.](http://www.investopedia.com/university/economics/economics4.asp))

Price elasticity of demand describes how changes in the cost of a product or service affect a company’s revenue. For some products, a small change in price will dramatically influence how many units the customer will buy. In other cases, price movements have little effect on demand. Therefore, understanding the price elasticity of each offering is crucial to maximizing profit.

Several factors can affect the price elasticity of products. For example, if substitute goods are readily available, the customer will immediately curtail purchases when the price rises. And if the good represents a major part of the buyer’s total spending, he or she will be more likely to shop based on price. Understanding how consumers value a product can be vital for any company. Raising prices can be one of the easiest ways to boost profits, but only if consumers are willing to accept the added cost.

**1. Perfectly Elastic Demand:**

When a small change in price of a product causes a major change in its demand, it is said to be perfectly elastic demand. In perfectly elastic demand, a small rise in price results in fall in demand to zero, while a small fall in price causes increase in demand to infinity. In such a case, the demand is perfectly elastic or ep = 00.

**2. Perfectly Inelastic Demand:**

A perfectly inelastic demand is one when there is no change produced in the demand of a product with change in its price. The numerical value for perfectly inelastic demand is zero (ep=0).

**3. Relatively Elastic Demand:**

Relatively elastic demand refers to the demand when the proportionate change produced in demand is greater than the proportionate change in price of a product. The numerical value of relatively elastic demand ranges between one to infinity.

**4. Relatively Inelastic Demand:**

Relatively inelastic demand is one when the percentage change produced in demand is less than the percentage change in the price of a product. For example, if the price of a product increases by 30% and the demand for the product decreases only by 10%, then the demand would be called relatively inelastic.

**5. Unitary Elastic Demand:**

When the proportionate change in demand produces the same change in the price of the product, the demand is referred as unitary elastic demand. The numerical value for unitary elastic demand is equal to one (ep=1).

**What is Deflation ? :**

Deflation is the opposite of inflation.   Deflation refers to  situation, where there is decline in general price levels.   Thus, deflation occurs when the inflation rate falls below 0%. Deflation increases the real value of money and allows one to buy more goods with the same amount of money over time. Deflation can occur owing to reduction in the supply of money or credit. Deflation increases unemployment in an economy. Deflation allows one to buy more goods and services than before with the same amount of money. Deflation is an indication that economic conditions are deteriorating. Deflation is usually associated with significant unemployment.

**Causes of Deflation**

**1. Increased Productivity:** Innovative solutions and new processes help increase efficiency, which ultimately leads to lower prices. Although some innovations only affect the productivity of certain industries, others may have a profound effect on the entire economy. For example, after the Soviet Union collapsed in 1991, many of the countries that formed as a result struggled to get back on track. In order to make a living, many citizens were willing to work for very low prices.

**2. Decrease in Currency Supply:** As the currency supply decreases, prices will decrease so that people can afford goods. Through central banking systems currency supplies decrease.

**3. Reduction in government expenditure:** Deflation can be the result of decreased governmental, business, or consumer spending, which means government spending cuts can lead to periods of significant deflation.

**4. Deflationary Spiral:** Once deflation has shown its ugly head, it can be very difficult to get the economy under control for a number of reasons. First of all, when consumers start cutting spending, business profits decrease. Unfortunately, this means that businesses have to reduce wages and cut their own purchases. In turn, this short-circuits spending in other sectors, as other businesses and wage-earners have less money to spend. It continues to get worse and the cycle is very difficult to break.

**Effects of Deflation:** Deflation can be compared to a terrible winter: The damage can be intense and be experienced for many seasons afterwards. Unfortunately, some nations never fully recover from the damage caused by deflation. Hong Kong, for example, never recovered from the deflationary effects that gripped the Asian economy in 2002. Deflation may have any of the following impacts on an economy:

**1. Reduced Business Revenues:** Businesses must significantly reduce the prices of their products in order to stay competitive. Obviously, as they reduce their prices, their revenues start to drop. Business revenues frequently fall and recover, but deflationary cycles tend to repeat themselves multiple times.

**2. Wage Cutbacks and unemployment:** When revenues start to drop, companies need to find ways to reduce their expenses to meet their bottom line. They can make these cuts by reducing wages and cutting positions. If businesses face more loss, they remove the employees and this leads to unemployment.

**3. Changes in Customer Spending:** When the economy undergoes a period of deflation, customers often take advantage of the substantially lower prices. Initially, consumer spending may increase greatly; however, once businesses start looking for ways to meet their supply, consumers who have lost their jobs or taken pay cuts must start reducing their spending as well. Of course, when they reduce their spending, the cycle of deflation worsens.

**4. Reduced Stake in Investments:** When the economy goes through a series of deflation, investors tend to view [cash](http://www.moneycrashers.com/why-cash-is-king/) as one of their best possible investments. Investors will watch their money grow simply by holding onto it. Additionally, the interest rates investors earn often decrease significantly as central banks attempt to fight deflation by reducing interest rates, which in turn reduces the amount of money they have available for spending.

**5. Reduced Credit:** When deflation rears its head, financial lenders quickly start to pull the plugs on many of their lending operations. As assets such as houses decline in value, customers cannot back their debt with the same value.

**RECESSION**

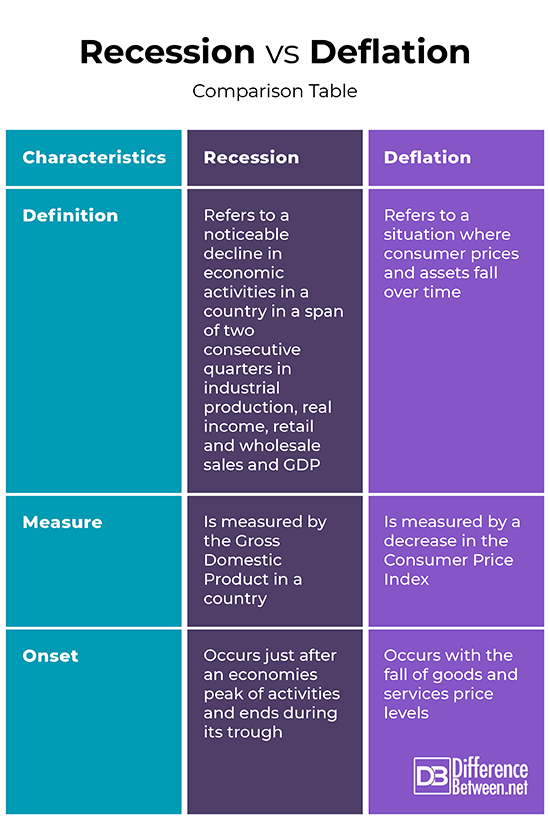
A recession is a significant, widespread, and prolonged downturn in economic activity. A common rule of thumb is that two consecutive quarters of negative gross domestic product (GDP) growth mean recession, although more complex formulas are also used.

What Causes Recessions?

Numerous economic theories attempt to explain why and how an economy goes into recession. These theories can be broadly categorized as economic, financial, psychological, or a combination of these factors.

Some economists focus on economic changes, including structural shifts in industries, as most important. For example, a sharp, sustained surge in oil prices can raise costs across the economy, leading to recession.

Some theories say financial factors cause recessions. These theories focus on credit growth and the accumulation of financial risks during good economic times, the contraction of credit and money supply when recession starts, or both. Monetarism, which says recessions are caused by insufficient growth in money supply, is a good example of this type of theory.



**What is Deflation ?**

The supply of goods & services, production, manufacturing in an economy, are on the higher side..whereas the aggregate demand for products & deermads are on the lower side..

So when the supply side i8s rich & the Aggragate demand is on the lower side , the prisec will come down...and it is called as DEFLATION

decline in general price levels.

Deflation increases the real value of money and allows one to buy more goods with the same amount of money over time

Deflation can occur owing to reduction in the supply of money or credit.

Deflation increases unemployment

Deflation is an indication that economic conditions are deteriorating

**Causes of Deflation**

**1. Increased Productivity:**

**2. Decrease in Currency Supply:**

**3. Reduction in government expenditure:**

**4. Deflationary Spiral:**

**Effects of Deflation:**

**1. Reduced Business Revenues:**

**2. Wage Cutbacks and unemployment:**

**3. Changes in Customer Spending:**

**4. Reduced Stake in Investments:**

**5. Reduced Credit:**

**RECESSION**

**a period when the business and industry of a country is not successful**

**OVERALL PERFORMANCE OF THE COUNTRY IS REDUCED..**

**OVERALL ECONOMY IS SHRUNK**

A recession is a significant, widespread, and prolonged downturn in economic activity. It is a period when the economy of a country is not successful and conditions for business are bad: The country is sliding into the depths of (a) recession, a period when the economy of a country is not doing well, industrial production and business activity are at a low level, and there are many people unemployed: a period, usually at least six months, of low economic activity, when investments lose value, businesses fail, and unemployment rises:

when the performance of all the sectors go down consecutively for 2 quarters ie 6 months(4 quarters in a year), we can technically say that economy has entered into a recession. Agricultural sector

manufacturing sector

services sector

the net outcome gets slided...the

Bad effects of recession--negative business senttiments prevails in an economy.

1. Demand for goods & services is low
2. purchasing power goes down
3. industries do not commit on any additional investment because they know that economy is in a recession
4. 4the industrialistrs do not generate additional employment because they knoe that the nation is undergoing recession
5. process of Industrialisation gets badly affected

For example, a sharp, sustained surge in oil prices can raise costs across the economy, leading to recession.