What is 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. Microeconomics covers several 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. -One of the main features of microeconomics is it focuses on casual situations when a marketplace experiences certain changes in the existing conditions. It takes a bottom-up approach to analyse the economy.

What are the Different Components of Microeconomics?

The different components of microeconomics include:
Market demand and supply (For example Textile)
Consumer Behavior (for example Consumer Choice Theory)
Producers are driven by individual preferences.
Market-specific labor markets (For example demand labor wage determination in specific markets).

What is 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 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.

What are the Different Components of Macroeconomics?

The different components of macroeconomics include:
National Output
Unemployment
Inflation

How do Microeconomics and Macroeconomics Interdependent on Each Other?

The two parts of Economics i.e. microeconomic and macroeconomics are not interrelated but are mutually exclusive. A close connection exists between the two terms. All microeconomic studies can analyze the better understanding of micro and macroeconomics variables. Such a study will help in the formulation of economic policies and programs. As we know, changes and processes in the economy are a result of both small and large-scale elements which retain the capacity to affect each other or are directly affected by each other. For example: Although the tax increase is a macroeconomic decision, its impact on firms ' savings is a microeconomics analysis.

Let us understand another example: if we know how the price of any commodity is determined and what is the role of buyer and seller in the price determination then it would help us in analyzing the changes that take place in the general price level for all commodities in the economy as a whole. A study of determining the price of a commodity and the role of buyers and sellers in this process is known as microeconomics whereas the study of the general price level in economics is a macroeconomic process. Similarly, if we want to determine the performance of an economy we will first have to find out the performance of each sector of the economy, and to find out the performance of each sector of the economy we have to find out the performance of each sector individually or in groups. A study of each sector of a production unit or each group is a microeconomics study whereas the study of all the production units of all the sectors is a macroeconomics study. Hence, microeconomics and macroeconomics are two interrelated parts of economics. Therefore, the study of both terms is important in economics.

Examples of Microeconomics and Macroeconomics

Examples of Microeconomics

- Price determination of a particular commodity.
- Consumer equilibrium.
- Output generated by an individual organization.
- Individual income and savings.

Examples of Macroeconomics

- National income and savings.
- General price level.
- Aggregate demand and Aggregate Supply
- Poverty.
- Rate of unemployment

S.No	**Microeconomics**	**Macroeconomics**
1	Microeconomics studies individual economic unit	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.

Effect of Micro and Macro Economics

Any changes in these categories have a direct impact on a country‘s economy. Several factors affect it; let‘s take a look

What Is the Law of Supply and Demand?

The law of supply and demand is the theory that prices are determined by the relationship between supply and demand. If the supply of a good or service outstrips the demand for it, prices will fall. If demand exceeds supply, prices will rise. The law of supply and demand is based on two other economic laws: the law of supply and the law of demand. The law of supply says that when prices rise, companies see more profit potential and increase the supply of goods and services. The law of demand states that as prices rise, customers buy less. Theoretically, a free market will move toward an equilibrium quantity and price where supply and demand intersect. At that point, supply exactly matches the demand — suppliers produce just enough of a good or service, at the right price, to satisfy everyone's demands.

Basic Laws of Supply and Demand

The law of supply and demand predicts four ways that changes in either demand or supply will drive changes in pricing:

1. Prices fall when supply increases and demand remains constant.

If supply increases without a change in demand, a surplus usually occurs. This can happen for many reasons, including surges in productivity. To move excess stock, especially if there's a pending expiration date, suppliers tend to lower prices to try to boost demand.

2. Prices fall when demand decreases and supply remains constant.

A surplus can also occur when customers want less of a good or service, even without a change in supply. The effect is the same: lower prices.

3. Prices rise when supply decreases and demand remains constant.

If supply drops, shortages occur. In that situation, customers are often willing to pay higher prices to get the goods and services they want. Supply constraints can occur for many reasons, including supply chain problems. If the problem is temporary, prices tend to return to their baseline once supply is restored.

4. Prices rise when demand increases and supply remains constant.

A shortage can occur if the demand for a product increases but the supply doesn't — or if demand increases faster than production can ramp up. When supply eventually catches up with demand, prices tend to stabilize

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.

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

1. Price Elasticity of Demand (PED)

Any change in the price of a commodity, whether it's a decrease or increase, affects the quantity demanded for a product. For example, when there is a rise in the prices of ceiling fans, the quantity demanded goes down. This measure of responsiveness of quantity demanded when there is a change in price is termed as the Price Elasticity of Demand (PED). The mathematical formula given to calculate the Price Elasticity of Demand is: **PED** = % Change in Quantity Demanded % / Change in Price The result obtained from this formula determines the intensity of the effect of price change on the quantity demanded for a commodity

2. Income Elasticity of Demand (YED)

The income levels of consumers play an important role in the quantity demanded for a product. This can be understood by looking at the difference in goods sold in the rural markets versus the goods sold in metro cities. The Income Elasticity of Demand, also represented by YED, refers to the sensitivity of quantity demanded for a certain good to a change in real income (the income earned by an individual after accounting for inflation) of the consumers who buy this good, keeping all other things constant. **Speaking of inflation, you can also take a look at our blog on what is inflation.** The formula given to calculate the Income Elasticity of Demand is given as: ***YED** = % Change in Quantity Demanded% / Change in Income* The result obtained from this formula helps to determine whether a good is a necessity good or a luxury good.

3. Cross Elasticity of Demand (XED)

In a market where there is an oligopoly, multiple players compete. Thus, the quantity demanded for a product does not only depend on itself but rather, there is an effect even when prices of other goods change. Cross Elasticity of Demand, also represented as XED, is an economic concept that measures the sensitiveness of quantity demanded of one good (X) when there is a change in the price of another good (Y), and that's why it is also referred to as Cross-Price Elasticity of Demand.The formula given to calculate the Cross Elasticity of Demand is given as: ***XED*** ***=*** *(% Change in Quantity Demanded for one good (X)%) / (Change in Price of another Good (Y))* The result obtained for a substitute good would always come out to be positive as whenever there is a rise in the price of a good, the demand for its substitute rises. Whereas, the result will be negative for a complementary good.

5 other types of Elasticity of Demand

1. Perfectly Elastic Demand: When there is a sharp rise or fall due to a change in the price of the commodity, it is said to be perfectly elastic demand. In perfectly elastic demand, even a small rise in price can result in a fall in demand of the good to zero, whereas a small decline in the price can increase the demand to infinity.

2. Perfectly Inelastic Demand: A perfectly inelastic demand is the one in which there is no change measured against a price change. Like perfectly elastic demand, the concept of perfectly inelastic is also a theoretical concept and doesn't find a practical application. However, the demand for necessity goods can be the closest example of perfectly inelastic demand.

3. Relatively Elastic Demand: Relatively elastic demand refers to the demand when the proportionate change in the demand is greater than the proportionate change in the price of the good. The numerical value of relatively elastic demand ranges between one to infinity. In relatively elastic demand, if the price of a good increases by 25% then the demand for the product will necessarily fall by more than 25%.

4. Relatively Inelastic Demand: In a relatively inelastic demand, the proportionate change in the quantity demanded for a product is always less than the proportionate change in the price. For example, if the price of a good goes down by 10%, the proportionate change in its demand will not go beyond 9.9..%, if it reaches 10% then it would be called unitary elastic demand.

5. Unitary Elastic Demand: When the proportionate change in the quantity demanded for a product is equal to the proportionate change in the price of the commodity, it is said to be unitary elastic demand. The numerical value for unitary elastic demand is equal to 1. The demand curve for unitary elastic demand is represented as a rectangular hyperbola.

What is Recession?

Several indicators, including real income, retail and wholesale sales, gross domestic product, and industrial output, have all pointed to a downturn in economic activity in a country during the past two quarters. In general, recessions begin just after an economy has achieved its peak level of activity and end when it has fallen to its lowest level. The decline in a country's GDP is a common economic indicator of a recession.

Most recessions are very short and uncommon, yet they can cause enormous harm to economies when they do occur. But recessions are inevitable during business cycles, which are otherwise characterized by rising unemployment, slow or negative growth, and the collapse of financial institutions.

What is Deflation?

In this instance, over time, the value of both consumer goods and assets declines. At first look, this may seem like a great opportunity for consumers since they will now be able to buy things at lower prices. Although shoppers appreciate price cuts, they have their sights set on even lower costs in the future for many commodities. However, this lowers product demand, which stunts the company's expansion. Recession follows, causing a cascade of negative effects, including less investment, lower profits, job losses, and lower salaries.

The common causes of deflation include

- Slow growth in the economy
- Relatively high-interest rates

The only true indicator of deflation is a decline in the Consumer Price Index. It's important to remember that the CPI doesn't track key economic indicators like home prices or stock market performance. The possibility of deflation in any of these sectors will go unnoticed if the CPI is used as the indicator of deflation.

Characteristics	Recession	Deflation
Definition	When economic indicators like gross domestic product (GDP), real income, retail and wholesale sales, and industrial output all decline for two consecutive quarters, we say that the country is in recession.	When both prices at the register and the value of a person's possessions fall over time, we say that the economy is in a state of deflation.
Importance	The GDP is one statistic that may be used to measure the severity of a recession.	Deflation is measured by a decrease in the Consumer Price Index.
Components	A recession often starts not long after an economy hits its peak and continues until it reaches its minimum.	Deflation is characterized by a broad decrease in pricing for products and services.