



**JUSTICE BASHEER AHMED SAYEED COLLEGE FOR WOMEN  
(Autonomous) Chennai 18.  
S.I.E.T.**

**DEPARTMENT OF ECONOMICS**

**MICRO ECONOMICS**

**UNIT-I**

**DR. (MRS.) JABEEN ARA BEGUM, ASSOCIATE PROFESSOR,  
DEPARTMENT OF ECONOMICS**

# NATURE AND SCOPE OF ECONOMICS

- **Definition**

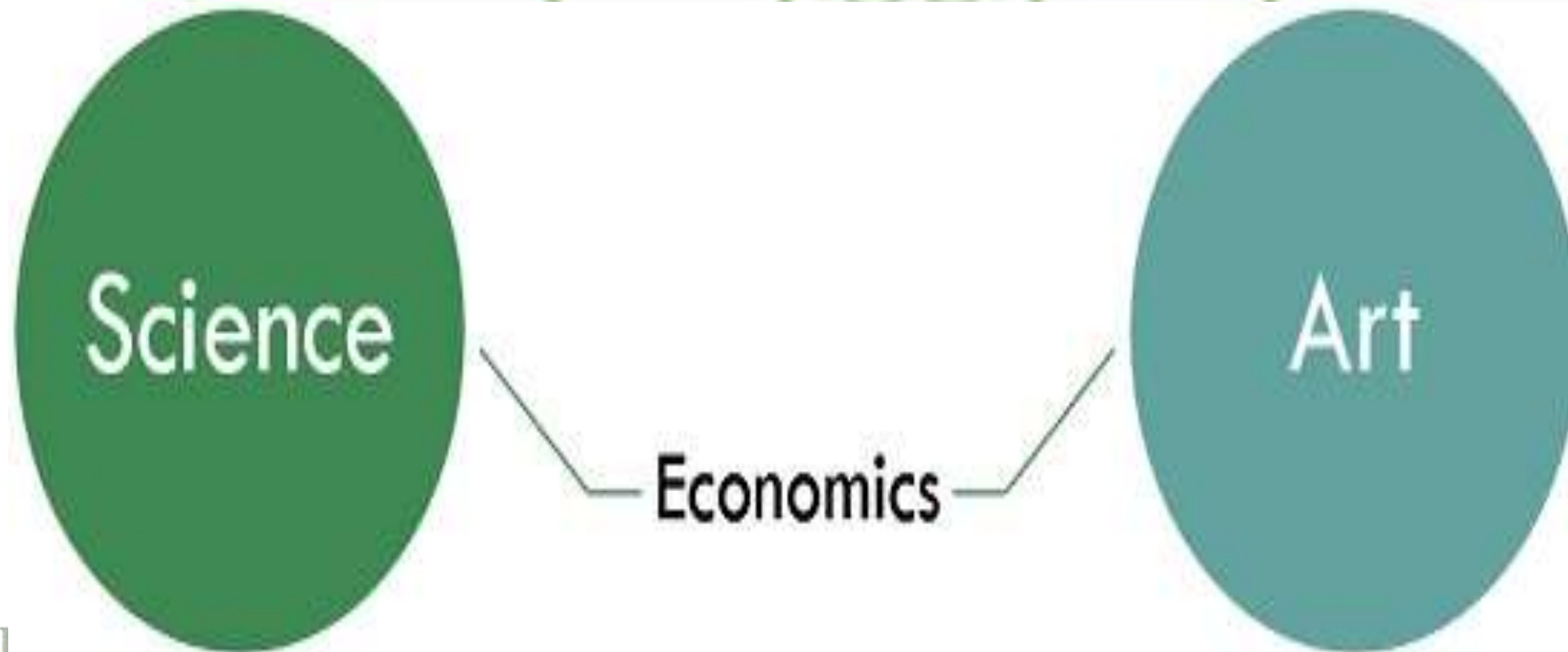
- Economics is that branch of social science which is concerned with the study of how individuals, households, firms, industries and government take decision relating to the allocation of limited resources to productive uses, so as to derive maximum gain or satisfaction.

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# Nature of Economics



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# Economics is a science

- Science is an organised branch of knowledge, that analyses cause and effect relationship between economic agents. Further, economics helps in integrating various sciences such as mathematics, statistics, etc. to identify the relationship between price, demand, supply and other economic factors.

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- **Positive Economics**

- A positive science is one that studies the relationship between two variables but does not give any value judgment, i.e. it states 'what is'. It deals with **facts about the entire economy.**

- **Normative Economics**

- As a normative science, economics **passes value judgement**, i.e. 'what ought to be'. It is concerned with economic goals and policies to attain these goals.

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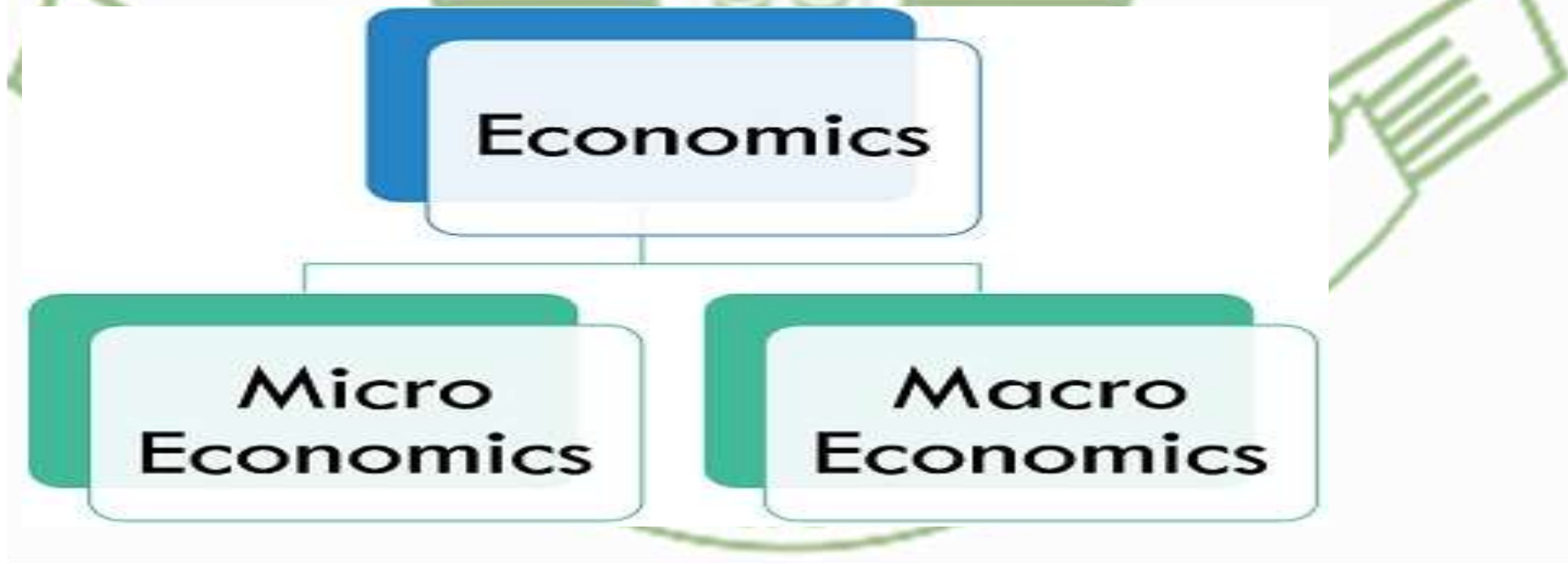
# Economics is an art

- Art is a discipline that expresses the way things are to be done, so as to achieve the desired end. Economics has various branches like production, distribution, consumption and economics, that provide general rules and laws that are capable of solving different problems of society.
- Therefore, economics is considered as science as well as art, i.e. **science in terms of its methodology and arts as in application.** Hence, economics is concerned with both theoretical and practical aspects of the economic problems which we encounter in our day to day life.

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# Scope of Economics



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# ***Micro Economics***

- Microeconomics examines individual economic activity, industries, and their interaction. It has the following characteristics:
- **Elasticity:** It determines the ratio of change in the proportion of one variable to another variable.

**For example-** the income elasticity of demand, the price elasticity of demand, the price elasticity of supply, etc.

- **Theory of Production:** It involves an efficient conversion of input into output.

**For example-** packaging, shipping, storing, and manufacturing.

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- **Cost of Production:** With the help of this theory, the object price is evaluated by the price of resources.
- **Monopoly:** Under this theory, the dominance of a single entity is studied in a particular field.
- **Oligopoly:** It corresponds to the dominance of small entities in a market.

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# Macro Economics

- It is the study of an economy as a whole. It explains broad aggregates and their interactions “top down.” Macroeconomics has the following characteristics:
- **Growth:** It studies the factors which explain economic growth such as the increase in output per capita of a country over a long period of time.
- **Business Cycle:** This theory emerged after the Great Depression of the 1930s. It advocates the involvement of the central bank and the government to formulate monetary and fiscal policies to monitor the output over the business cycle.

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- **Unemployment:** It is measured by the unemployment rate. It is caused by various factors like rising in wages, a shortfall in vacancies, and more.
- **Inflation and Deflation:** Inflation corresponds to an increase in the price of a commodity, while deflation corresponds to a decrease in the price of a commodity. These indicators are valuable to evaluate the status of the economy of a country.

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# Difference between micro and macro economics

Key	Microeconomics	Macroeconomics
<b>Meaning</b>	Microeconomics studies the particular market segment of the economy	Macroeconomics studies the whole economy, that covers several market segments
<b>Deals with</b>	Microeconomics deals with various issues like demand, supply, factor pricing, product pricing, economic welfare, production, consumption, etc.	Macroeconomics deals with various issues like national income, distribution, employment, general price level, money, etc.
<b>Business Application</b>	Applied to internal issues	Environment and external issues
<b>Scope</b>	Covers several issues like demand, supply, factor pricing, product pricing, economic welfare, production, consumption, etc.	Covers several issues like distribution, national income, employment, money, general price level, etc.

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Key	Microeconomics	Macroeconomics
<b>Significance</b>	Useful in regulating the prices of a product alongside the prices of factors of production (labour, land, entrepreneur, capital, etc) within the economy	Perpetuates firmness in the broad price level and solves the major issues of the economy like deflation, inflation, rising prices (reflation), unemployment and poverty as a whole
<b>Limitations</b>	It is based on impractical presuppositions, i.e., in microeconomics, it is presumed that there is full employment in the community, which is not at all feasible	It has been scrutinized that Misconception of Composition' incorporates, which sometimes fails to prove accurate because it is feasible that what is true for aggregate (comprehensive) may not be true for individuals too