



## Chapter III: Microeconomics and Macroeconomics

---

### Introduction

Economics is a social science that studies how individuals and societies allocate scarce resources to satisfy unlimited wants. It is generally divided into two main branches: microeconomics and macroeconomics. While microeconomics focuses on the behaviour and decision-making of individual economic units such as consumers and firms, macroeconomics examines the economy as a whole by analysing aggregate variables like national income, inflation, and unemployment. Together, these two branches provide a comprehensive understanding of how economic systems function at both individual and national levels.

### 1. Definitions

#### **Definition of Microeconomics:**

- Microeconomics is the branch of economics that concentrates on the behaviour and performance of individual units such as consumers, families, industries, and firms.
- Demand plays a key role in determining the quantity and price of a product, together with the price and quantity of related goods (complementary goods) and substitute goods.
- It focuses on the allocation of scarce resources and their alternative uses.
- Examples: Individual demand, price of a product, cost of production.

#### **Definition of Macroeconomics:**

- Macroeconomics is the branch of economics that studies the behaviour and performance of aggregate variables and issues affecting the economy as a whole.
- It includes regional, national, and international economies and covers areas such as unemployment, poverty, general price level, GDP (Gross Domestic Product), imports and exports, economic growth, globalisation, and monetary and fiscal policy.
- It aims to solve major economic problems and ensure the efficient functioning of the economy.
- Examples: Aggregate demand, national income, inflation rate.

### 2. Differences between Microeconomics and Macroeconomics:

Basis of Comparison	Microeconomics	Macroeconomics
Meaning	Study of individual economic units (consumers, firms, industries).	Study of the economy as a whole.
Nature of Analysis	Static analysis.	Dynamic analysis.
Main Problem	Price determination.	Income determination.
Employment Assumption	Assumes full employment and optimum allocation of resources.	Studies less than full employment and underemployment.
Focus	Particular prices, particular goods, individual markets.	Aggregate demand, aggregate supply, national income, general price level.

Objective	Maximisation of utility and profit; minimisation of cost.	Full employment, price stability, economic growth, favourable balance of payments.
Price Level	General price level is assumed to be given.	General price level is treated as a variable.
Method	Based on price mechanism (demand and supply).	Based on aggregate demand and aggregate supply.
Assumption	Uses 'ceteris paribus' (other things remaining constant).	Uses general equilibrium analysis.
Scope of Problems	Many specific problems.	Relatively fewer but broader economic problems.

## Conclusion:

In conclusion, microeconomics and macroeconomics are two complementary branches of economics that provide different but interconnected perspectives on economic activity. Microeconomics explains how individual consumers and firms make decisions and how prices are determined in specific markets, whereas macroeconomics analyses broader economic phenomena such as national income, inflation, unemployment, and economic growth. Understanding both approaches is essential for gaining a complete view of how resources are allocated and how economies operate at both the individual and aggregate levels.

# Let's practice

---

## Exercise 1: Identify Microeconomics or Macroeconomics

Indicate whether each situation belongs to **Microeconomics** or **Macroeconomics**.

1. The government studies the national unemployment rate. \_\_\_\_\_
2. A company decides to reduce the price of its product. \_\_\_\_\_
3. The central bank tries to control inflation. \_\_\_\_\_
4. A consumer chooses between two products. \_\_\_\_\_
5. The country's GDP increases by 3%. \_\_\_\_\_

## Exercise 2: Case Study

A bakery increases bread prices because flour costs rise. At the same time, the country experiences inflation and unemployment.

### Questions:

1. Identify the microeconomic situation.

---

2. Identify the macroeconomic situation.

- 
3. Give one microeconomic variable and one macroeconomic variable.
- 

# Answer Key

---

## Exercise 1 Answers:

- 1. Macroeconomics
- 2. Microeconomics
- 3. Macroeconomics
- 4. Microeconomics
- 5. Macroeconomics

## Exercise 3 Suggested Answers:

- Microeconomic situation: Bakery increasing bread price.
- Macroeconomic situation: Inflation and unemployment.
- *Micro variable:* Bread price. *Macro variable:* Inflation or unemployment.