

# Last Day Revision of Economics

## Chapter 1: Introduction to Micro – Economics

Subject: Economics

Class : 12TH HSC Board

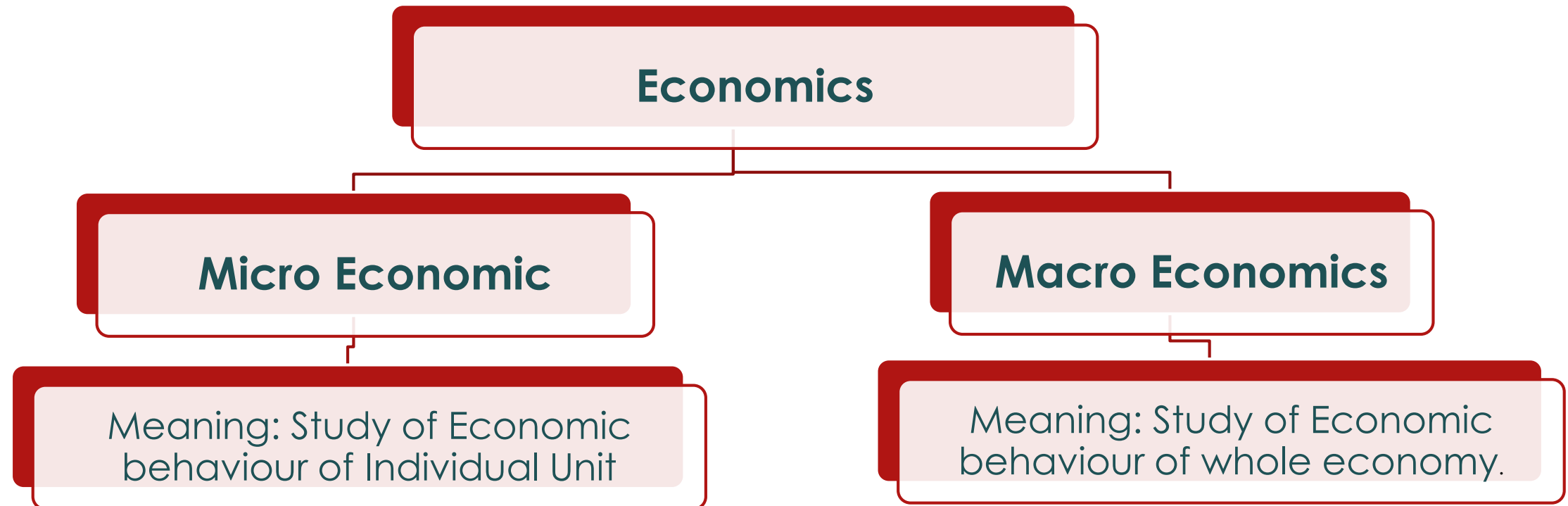
State : Maharashtra HSC Board

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# Define Economics:

- ▶ **Answer** : As defined by Dr. Alfred Marshall “Economics is the study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and use of the material requests of wellbeing.”

# Types of Economics:



# Meaning & Definition of Micro Economics:

- ▶ Kenneth Boulding - "Micro economics is the study of particular firms, particular households, individual prices, wages, incomes, individual industries and particular commodities."

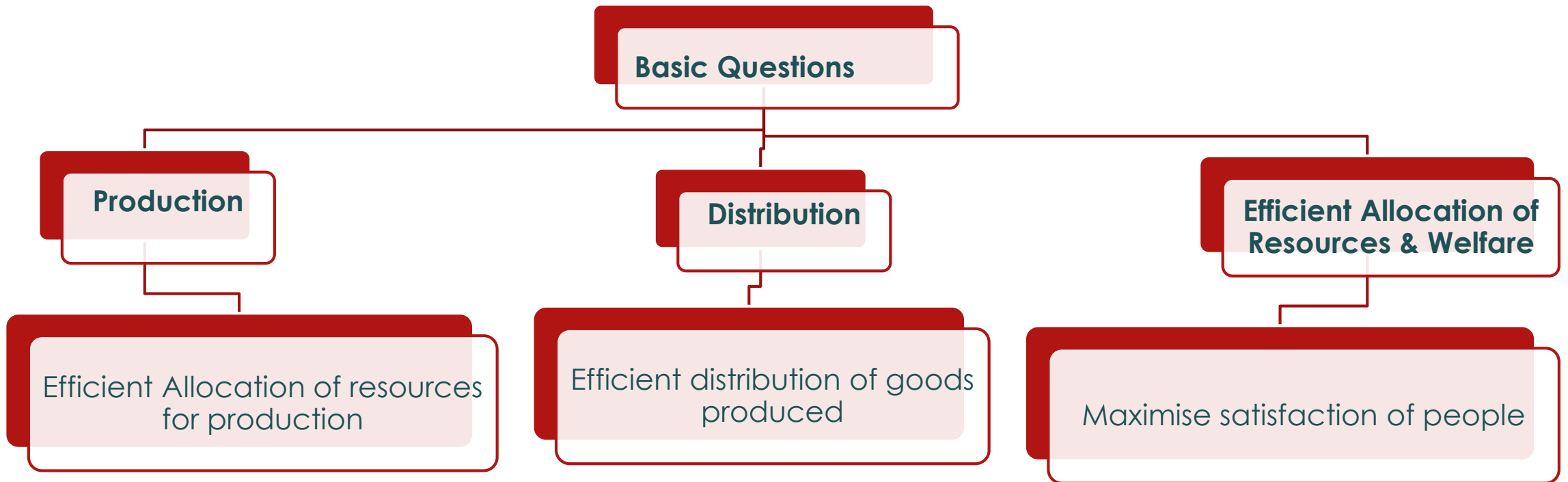
**OR**

- ▶ Maurice Dobb - "Micro economics is in fact a microscopic study of the economy."
- ▶ Derived from Greek word 'Mikros' meaning 'small'
- ▶ Also known as 'Price Theory'
- ▶ Individualistic in Nature
- ▶ Study of Individual Economic Unit Eg: Firm, individual consumer etc.

# Historical Review of Micro Economics: [Oct-14]

- ▶ Founded by Adam Smith, also known as “The father of Economics”
- ▶ Explained how price of commodity determines production.
- ▶ Developed and popularized by Dr. Alfred Marshall.
- ▶ Study of individual markets to understand dynamics of economics.
- ▶ Marginalism principle
- ▶ Other economists: f David Ricardo, J.S. Mill, J. R. Hicks, Prof. Samuelson, Prof. Pigou, Chamberlin, Mrs. Joan Robinson etc

# Basic Economic Questions Dealt with by Micro Economics



# Scope of Micro Economics:

- ▶ Kenneth Boulding, "Micro economics is the study of particular firms, particular households, individual prices, wages, incomes, individual industries and particular commodities."
- ▶ Individualistic in nature
- ▶ Study of price theory and resource allocation.
- ▶ Limited Scope
- ▶ Eg: Fiscal Policies & Monetary Policies beyond scope of Micro Economics

# Subject Matter of Micro Economics:

## Theory of Product Pricing:

- Theory of Demand i.e analysis of consumer's behaviour
- Theory of Supply i.e analysis of production & Cost

## Theory of Factor Pricing

- Also known as Micro Theory of Distribution
- Wages – Labour Cost
- Rent – Land Cost
- Interest- Capital Cost
- Profit- Monetary reward of entrepreneur

## Theory of Economic WELFARE:

- Aims to achieve Economic Efficiency i.e maximum satisfaction with minimum resources.
  - Efficiency in production
  - Efficiency in consumption
  - Efficiency in the direction of production

# Features of Micro Economics.

1. **Price Theory** : Determination of Price & rewards
2. **Partial equilibrium** : equilibrium position of an individual economic unit assuming other things remaining the same
3. **Microscopic approach** : Analyse individual unit separately in detail
4. **Analysis of Resource Allocation and Economic Efficiency**
5. **Use of Marginalism Principle** : change in total by adding one unit
6. **Analysis of Market Structure** : price determination in perfect competition, monopoly, monopolistic competition, oligopoly etc
7. **Based on Certain Assumptions** : Ceteris Paribus ie “Other things remaining the same”.
8. **Limited Scope** : Does not deal with the nationwide economic problems
9. **Study of individual units** : refers to the smallest part of an economy viz. individual household, individual firm, individual income, etc
10. **Slicing Method** : Divide whole economy in small individual unit

# Importance of Micro Economics:

1. Price Determination
2. Working of a Free Market Economy
3. International Trade & Public Finance
4. Utilization of Resources
5. Model Building
6. Helps in Taking Business Decisions
7. Useful to Government
8. Basis of Welfare Economics

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