**Chapter: 1**

**Introduction to Microeconomics**

**The basic definition of economics:**

* “Economics enquire into the nature and causes of wealth of nations”

(*Adam Smith*)

* “Economics is a study of mankind in the ordinary business of life and examines that part of individual and social action which is connected with material requisites of well being.”

(*Marshall*)

* “Economics is a science which studies human behavior as a relationship between ends and scares resources which have alternative uses.”

(*L. Robbins*)

* Adam Smith wrote the book- “*An Enquire into the Nature and Causes of Wealth of Nations*” in 1776.
* **Adam Smith** is known as father of modern economics.

**An economy exists because of two basic facts:**

* Human wants for goods and services are unlimited; and
* Productive resources with which to produce goods and services are limited.
* Thus a society is faced with the problem of choice – choice among unlimited wants/desires that are to be satisfied with limited resources.

**The basic problems/questions in an economy:**

* What goods are produced and in what quantities by the productive resources;
* How to produced, that is what production methods are employed for production of various goods and services;
* How to distribute, that is how is the total production of goods and services is distributed among its people;
* Are the uses of production resources economically efficient?
* Whether all available productive resources with a society are being fully utilized?
* Is the economy’s productive capacity increasing, declining or remaining constant over time?
* Economics has been divided into two parts by **Ragnar Frisch** (*First Nobel Prize winner in Economics*):
* Microeconomics; and
* Macroeconomics
* Micro means small and macro means large.
* ***Microeconomics*** deals with the analysis of small individual units of the economy such as individual consumers, individual firms and small aggregates or groups of individual units such as various industries and markets.
* ***Macroeconomics*** deals with the analysis of the economy as a whole and its large aggregates such as total national output and income, total employment, total consumption, aggregate investment, etc.

|  |  |
| --- | --- |
|  |  |

* *Positive economics* deals with describing relationships of cause and effect. It deals with explanation and prediction.
* *Normative economics* deals with what ought to be or what should be. It is related to value judgments.
* *Partial equilibrium* analysis is the study of the behavior of individual decision- making units and working of individual markets in isolation.
* *General equilibrium* analysis is the study of the behavior of all individual decision- making units and all individual markets simultaneously.
* Partial equilibrium analysis is developed by ***Marshall*** whereas general equilibrium analysis is developed by ***Walras***.

**REVIEW QUESTIONS**

**Objective Type Questions:**

1. Who is known as father of modern economics?
2. Ragnar Frisch b. Adam Smith c. Marshall d. None of these.
3. Who was the first person who got Nobel Prize in economics?
4. Ragnar Frisch b. Adam Smith c. Marshall d. None of these.
5. Who wrote the book *Wealth of Nations*
6. Ragnar Frisch b. Adam Smith c. Marshall d. Robbins.
7. Wealth of Nations was published in---
8. 1976 b. 1876 c. 1776 d. 1676.
9. Microeconomics and Macroeconomics was first coined by ----
10. Ragnar Frisch b. Adam Smith c. Marshall d. Robbins.
11. The study of the behavior of individual decision- making units and working of individual markets in isolation is known as-----
12. General equilibrium analysis b. Partial equilibrium analysis.

**Answer:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 1 | 2 | 3 | 4 | 5 | 6 |
| b | a | b | c | a | b |

**QUESTIONS WITH ANSWER**

**Ques:** Why does economy exist in the world?

**Ans:** An economy exists because of two basic facts:

1. Human wants for goods and services are unlimited; and
2. Productive resources with which to produce goods and services are limited.

**Ques:** What are the main definitions of economics?

**Ans:** The main definitions of economics are given by Adam Smith, Marshall and Robbins.

According to **Adam Smith**, “Economics enquire into the nature and causes of wealth of nations.”

**Marshall** defines “Economics is a study of mankind in the ordinary business of life and examines that part of individual and social action which is connected with material requisites of well being.”

**Robbins** defines, “Economics is a science which studies human behavior as a relationship between ends and scares resources which have alternative uses.”

**Ques:** Who has written the book- “An Enquire into the Nature and Causes of Wealth of Nations?”

**Ans:** Adam Smith has written this book in 1776.

**Ques:** Who is known as known as father of modern economics?

**Ans:** Adam Smith

**Ques:** What are the basic problems/questions in economy?

**Ans:** The basic problems/questions in an economy are:

1. What to produce;
2. How to produce; and
3. For whom to produce?

**Ques:** Who divided economics into two parts as microeconomics and macroeconomics?

**Ans:** Ragnar Frisch (First Nobel Prize winner in Economics).

**Ques:** What is microeconomics?

**Ans:** Microeconomics deals with the analysis of small individual units of the economy such as individual consumers, individual firms and small aggregates or groups of individual units such as various industries and markets.

**Ques:** What is macroeconomics?

**Ans:** Macroeconomics deals with the analysis of the economy as a whole and its large aggregates such as total national output and income, total employment, total consumption, aggregate investment, etc.

**Ques:** What is positive economics?

**Ans:** Positive economics deals with describing relationships of cause and effect. It deals with explanation and prediction.

**Ques:** What is normative economics?

**Ans:** Normative economics deals with what ought to be or what should be. It is related to value judgments.

**Ques:** What do you understand by partial equilibrium?

**Ans:** Partial equilibrium analysis is the study of the behavior of individual decision- making units and working of individual markets in isolation.

**Ques:** What is general equilibrium analysis?

**Ans:** General equilibrium analysis is the study of the behavior of all individual decision- making units and all individual markets simultaneously.

**Ques:** Who developed partial and general equilibrium analysis?

**Ans:** Marshall developed partial equilibrium analysis and Walras developed general equilibrium analysis.

**Very Short Questions:**

1. Who wrote the book “Wealth of Nations?”
2. Who is known as father of modern economics?
3. Who was the first Nobel Prize winner in economics?
4. Who divided economics into two parts- microeconomics and macroeconomics?
5. The study of the behavior of individual decision- making units and working of individual markets in isolation is known as------
6. Who deals with describing relationships of cause and effect and also deals with explanation and prediction?

**Short Questions:**

1. What is Economics?
2. What are basic economic problems or questions?
3. Distinguish between microeconomics and macroeconomics.
4. What are the scope of microeconomics and macroeconomics?
5. What do you understand by positive and normative economics?
6. What is partial equilibrium analysis?
7. What do you understand by general equilibrium analysis?

\*\*\*\*\*