PRINCIPLES OF ECONOMICS

B.Com Hons Part-I

TOPIC - Difference between Micro And Macro Economics

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* Difference between Micro economics and Macro economics :-

1. Micro economics studies individuals units whereas macro economics studies aggregate economic units.

2. Micro economics deals with determination of price and output in individuals markets wheras it deals with determination of general price level and national output in the country.

3. Basic parameter of microeconomics is price whereas basic parameter of macro-economics is income.

4. The theory of the houshold, the firm and the industry are the variety of the micro-economics whereas Theory of income, output and employment, theory of business cycles, Macro theory of distribution are the macro economic variety.

5. Example of micro economics - the behaviour of individual consumer or producer or firm are such economic activities which are associated with individual economic unit. Whereas example of macro economics - national income, national saving, national investment, total employment, total production general price level etc.

* Inter - dependence between Micro and Macro economics :-

→ Dependence of micro economic analysis on Macro economic analysis :-

(1) We study how to determine the rate of interest or the rate of profit in micro economics but according to classical theory, the rate of interest is determined by aggregate saving and aggregate investment. These two are macro economic concepts.

(2) The price of an individual product is determined not only by its own supply and demand but by the prices of other similar products.

(3) The sale of the firm is determined, not only by its own prices but by the total purchasing power available to the community.

(4) In macro economics profit is regarded as the reward for risk - bearing and uncertainity. The magnitude of profits that can be made by a firm or an entrepreneur depends on national income or output, the level of aggregate demand and the general price level. All these are in the subject area of macro economics.

→ Dependence of Macro economics analysis on micro economics :-

① Aggregate production function used in macro economics derived from the production function of individual firms.

② By adding up the investment functions of different firms provides the micro economic foundation of the social investment function.

③ By adding up the consumption schedules of different individuals. We arrive at the aggregate consumption schedule.

Therefore, through micro economics and macro economics deal with different subjects, yet there is a good deal of inter dependence between them.

In fact, when we discuss of various economic phenomena, the tools and concept of both micro and macro economics are often used and applied.