The differences between macroeconomics and microeconomics

Economics, Microeconomics

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Economics is the study of how unlimited wants can be satisfied with scarce recourses. Economics is a branch of social science that deals with production consumption and transfer of wealth. The term economics is derived from an ancient Greek word " oikonomia" which means management of household. Oikos means house and nomos means law or custom that means rules of house hold. 1776 is considered the year of Economics as a separate field of study, when The Wealth of Nations was published by Adam Smith, a Scottish social philosopher. There are two broad subfields of economics micro economics and macro economics. Micro means small and microeconomics deals with the smaller parts of economics such as economic condition of an individual or a firms, demand and supply of any individual firms or household, price of a specific products etc. Macro means big or large, and deals with large part of economics such as aggregated demand and supply, inflation, interest rates, economic growth and unemployment etc. If income of a household is the subject matter of microeconomics then national income will be the subject matter of Macroeconomics. Though both Microeconomics and Macroeconomics are the parts of economics they have some differences and they hay related to each other as well.

Literature review and Discussion:

Micro economics is the study of individual unites. It is a branch of economics that study how household decisions are made to allocate scarce resource. On the other hand macro economics study of economy as a whole. It is a study of economic aggregates. There are many differences between these two parts of economics. They differ in their Nature, Scope, Purpose, Need objective, Instrument and Analysis. " Microeconomics is concerned with the universal problem of scarcity while deals with the economy as a whole" (A. T. Clement and H. Keith, 2008, pp 18). Microeconomics is a study of scarcity and choice, which deals with the decision making problems of what to produce, how to produce, for whom to produce and who will choose that what to produce business firms and households and the policies taken by the government for these unites. While individual firms and house hold decisions are not the matter of concern of Macroeconomics. It solves the problems of national income, unemployment, output, input, export-import, GDP, inflation, government budget deficits etc.

Micro economics deals with normal demand and supply, demand is the want of having some thing, ability to pay for it and have the willingness to pay for it and supply is the quantity of a product that a producer wants to sell at a given price. On the other hand macro economics deals with Aggregate Demand and Aggregate supply

The total amount of goods and services demanded in the countries economy at a given overall price level within a given time period. Aggregate demand in macroeconomics is the demand for the gross domestic product (GDP) of a country, and Aggregate Demand is represented the formula:

Aggregate Demand (AD) = C + I + G (X-M)

In this formula ‘ C’ stands for Consumers’ expenditures; ‘ I’ is Investment spending by firms on capital goods, and ‘ G’ represents Government expenditures on public goods and services. ‘ X’ stands for Exports of goods and services and ‘ M’ is Imports of goods and services. Aggregate demand is known as total expenditure or total input. Aggregate supply is the total supply (goods and service) produced in an economy in a given period of time and in a given overall price level.

“ In microeconomics, the equilibrium occurs when the quantity demanded equals the quantity supplied. In macroeconomics, on the other hand, equilibrium occurs when the aggregate demand equals aggregate supply”(Abhijit Naik, 2010) equilibrium in macro economics can be for short run or long run but in micro economics it is only one general equilibrium.

Equilibrium in Micro economics

In short run AD is aggregated demand, SAS represents aggregated supply, p is price and A and B are two equilibrium.

In long run equilibrium every firm will earn normal profit, and that is, zero profit, price (P) is equal to marginal cost (MC), means P = MC, price (P) is equal to the minimum of short run average cost (SRAC), P = SRAC. This entails zero economic profit, price (P) is equal to the minimum long run average cost (LRAC = ATC), P = minimum LRAC.

5. Putting it all together:

P = MC = min SRAC = min LRAC

“ The bottom line is that microeconomics takes a bottoms-up approach to analyzing the economy while macroeconomics takes a top-down approach”. (investopedia. com, 19. 04. 2011)

Micro economics and Macro economics is not totally different from each other, they are not mutually exclusive. Micro economics and Macro economics reflects each other they are also complementary to each other. Actually Macro-economics has a foundation in Micro-economics and Micro-economics also has a foundation in Macro-economics. That means they are vice versa. There are many similarities in these two branches of economics the first one is of the branches deals with supply and demand conditions, macroeconomics deals with aggregate supply and demand but it follows the same law of demand which is if all other factors remain constant then quantity demanded will decrease with the increase of price level. It also follows the law of supply. Law of supply says that if all other factors remain constant then quantity supplied will increase with the increase of price level. Both micro and macro economics have the focus on the incentives and opportunity costs means both of the branches tries to achieve the bets fit sacrificing the next best alternatives, aggregating up behavior, both Micro economics and Macro economics retains focus on reaching the equilibrium conditions and when price changes in both case the demand and supply shift parallel. In both branches there are surplus and shortfall. There are many other similarities and dissimilarities between these two branches.

Conclusion:

Despite of having some dissimilarities Micro economics and Macro economics both are important and need to be understood to have a full knowledge of economics. To understand national economy is important but it is also necessary to understand the household economy and the firm's economy to set a nations economic policy and have the same importance. Because aggregated household economy and the firm's economy is the macroeconomics but this two branches should have proper combination in the policy so that they can support each other. We should know the differences but should not give our full focus on the differences. We should have combined knowledge on these two branches of economics.