

# Importance of microeconomics in business

[Economics](#), [Microeconomics](#)



Microeconomics is very important in business. Macroeconomics: It means too large. When economic problems are analyzed on national or aggregate basis, it is known as macro approach. From Greek prefix " macros-" meaning " large" + " economics") is a branch of economics dealing with the performance, structure, behavior, and decision-making of the whole economy. This includes national, regional, and global economies. With microeconomics, macroeconomics is one of the two most general fields in economics.

Macroeconomics study aggregated indicators such as Gross Domestic Product, unemployment rates, and price indices to understand how the whole economy functions. Macroeconomics develop models that explain the relationship between such factors as national income, output, consumption, unemployment, inflation, saving, investment, international trade and international finance. In contrast, microeconomics is primarily focused on the actions of individual agents, such as firms and consumers, and how their behavior determines prices and quantities in specific markets.

While macroeconomics is a broad field of study, there are two areas of research that are emblematic of the discipline: the attempt to understand the causes and consequences of short-run fluctuations in national income (the business cycle), and the attempt to understand the determinants of long-run economic growth (increases in national income). Macroeconomic models and their forecasts are used by both governments and large corporations to assist in the development and evaluation of economic policy and business strategy. Pica] Macroeconomics encompasses a variety of concepts and variables, but three are central topics for macroeconomic

research. Macroeconomic theories usually relate the phenomena of output, unemployment, and inflation. Outside of macroeconomic theory, these topics are also extremely important to all economic agents including workers, consumers, and producers. Macroeconomics can be thought of as the "big picture" version of economics. Rather than analyzing individual markets, macroeconomics focuses on aggregate production and consumption in an economy.

Some topics that macroeconomics study are: The effects of general taxes such as income and sales taxes on output and prices The causes of economic upswings and Economics By Cheesecakes The effects of monetary and fiscal policy on economic health rates are determined Why some economies grow faster than others Microeconomics How interest Microeconomics: micro means too small. When individual economic problems are analyzed, it is known as micro approach.

From Greek prefix) is a branch of economics that studies the behavior of individual households and firms in making decisions on the allocation of limited resources. Typically, it applies to markets where goods or services are bought and sold. Microeconomics examines how these decisions and behaviors affect the supply and demand for goods and services, which determines prices, and how prices, in turn, determine the quantity supplied and quantity demanded of goods and services. This is in contrast to macroeconomics, which involves the "sum total of economic activity, dealing with the issues of growth, inflation, and unemployment.

Microeconomics also deals with the effects of national economic policies

(such as changing taxation levels) on the aforementioned aspects of the economy. [4] Particularly in the wake of the Lucas critique, much of modern macroeconomic theory has been built upon 'micro foundations'? I. E. Based upon basic assumptions about micro-level behavior. One of the goals of microeconomics is to analyze market mechanisms that establish relative prices amongst goods and services and allocation of limited resources amongst many alternative uses.

Microeconomics analyzes market failure, where markets fail to produce efficient results, and describes the theoretical conditions needed for perfect competition. Significant fields of study in microeconomics include general equilibrium, markets under asymmetric information, choice under uncertainty and economic applications of game theory. Also considered is the elasticity of products within the market system. Those who have studied Latin know that the prefix "micro-" means "small," so it shouldn't be surprising that microeconomics is the study of small economic units.

The field of microeconomics is concerned with things like:

- Consumer decision making and utility maximization
- Firm production and profit maximization
- Individual market equilibrium
- Effects of government regulation on individual markets
- Externalities and other market side effects

The Relationship between Microeconomics and Macroeconomics There is an obvious relationship between microeconomics and macroeconomics in that aggregate production and consumption levels are the result of choices made by individual households and firms, and some macroeconomic models explicitly make this connection.

Most of the economic topics covered on television and in swappers are of the macroeconomic variety, but it's important to remember that economics is about more than just trying to figure out when the economy is going to improve and what the government is doing with interest rates.

**Microeconomics versus Macroeconomics** There are differences between microeconomics and macroeconomics, although, at times, it may be hard to separate the functions of the two. First and foremost, both of 'micro' and 'macro' imply, microeconomics facilitates decisions of smaller business sectors, and macroeconomics focuses on entire economies and industries.

These two economies are mutually dependent, and together, they develop the strategy for the overall growth of an organization. They are the two most important fields in economics, and are necessary for the rise in the economy.

Microeconomics focuses on the market's supply and demand factors that determine the economy's price levels. In other words, microeconomics concentrates on the 'ups' and 'downs' of the markets for services and goods, and how the price affects the growth of these markets. An important aspect of this economy is also to examine market failure, i.e., when the markets do not provide effectual results. In our present time, microeconomics has become one of the most important strategies in business and economics. Its main importance is to analyze the economy forces, consumer behavior, and methods of determining the supply and demand of the market. On the other hand, macroeconomics studies similar concepts with a much broader approach. The focus of macroeconomics is basically on a country's income, and the position of foreign trades, with the study of unemployment rates, Gross Domestic Product and price indices.

Macroeconomics are often found to make different types of models, ND relationships, between factors such as output, national income, unemployment, consumption, savings, inflation, international trade, investment, and international finances. Overall, macroeconomics is a vast field that concentrates on two areas, economic growth and changes in the national income. Governments make policy changes to avoid different types of economic distress, as they know how to steady the economy. This is one of the best approaches to stabilize and ensure the growth of the nation's economy.

Therefore, macroeconomics maintains two strategies: Fiscal Policy: The most important aspect of fiscal policy is taxation and government spending, where the government will focus of the collecting of revenue to empower the economy. This can create a solid impact on the economic growth. Monetary Policy: This policy controls the monetary authority, central bank, or government of a country, and focuses on the availability and supply of money and interest rates, in order to sustain the growth of the economy.

Importance of micro economics Micro economics plays a vital role in the study of modern economic theory. It is important in the following ways as described below: New Businesses Entrepreneurs create businesses by purchasing and utilizing factors of production. In order to estimate the potential return on investment (ROI) of those factors of production, entrepreneurs must have a basic grasp of microeconomic concepts: supply, demand, cost, profit. Without such a grasp, it is impossible to know how much a particular good can be sold for in a particular area.

Furthermore, without a grasp of costs and earnings, it is impossible to estimate ROI, thus leading to Marketing Marketing people must have a basic understanding of microeconomics so that they can set prices for products and decide in which markets to sell those products. A comprehension of microeconomics enables, say, a computer company marketing manager to advise the CEO to start allowing installment payments in case of an economic downturn, thus recovering business from customers hit hard by the recession. A marketing manager without a sense of economics might not realize that such options are available.

Management Managers must understand the concept of ROI when setting salaries for new hires, as employees are supposed to generate profits for the company. Managers just also have a grasp of microeconomics when making general budget decisions; a project shouldn't be given a budget that exceeds what the project is expected to produce in future earnings. These kinds of decisions are based on the microeconomic concepts of cost, revenue and profit. Finance and Accounting Finance people probably use microeconomics more than anyone else in business.

Financial analysts use microeconomic and macroeconomic theories in order to forecast the future value of financial assets e. G. , gold, stocks, bonds and other investments. For example, a securities analyst might use microeconomic data to determine the change in income of people in a given country, then use the microeconomic concept of " price elasticity of demand" the responsiveness of consumer demand to changes in consumer income to

determine whether the price of a given asset will rise or fall in that country.

Accountants use financial ratios that are derived from microeconomics. 1 .

To understand the working of the economy: It helps us in understanding the working of a free enterprise economy. It gives us an idea about how major economic decisions are taken in a market economy. 2. Helpful in the efficient employment of resources: It suggests economizing, that is how efficiently the scarce available resources can be utilized in production process in an economy. 3. Helps in International Trade: Micro economics is used to explain gains from internal trade, external trade, foreign exchange, balance of payment, disequilibrium and in the determination of exchange rate. 4.

Basis of welfare economics: which is an important constituent of micro economics. It suggests the conditions of efficiency and explains how it can be achieved. It helps in improving the standard of living of population. 5.

Helpful in understanding the consequences of taxation: Imposition of tax leads to reallocation of resources from one place to another. Micro economics explains how imposition of different types of direct and indirect taxes lead to attainment of social welfare. 6. Tool for evaluating economic policies: It helps the states and central government to frame economic policies like price policy, taxation policy etc.

It also explains the condition of efficiency in production and consumption. 7.

Construction and use of models: Micro economics construct and uses simple models in order to understand the actual economic phenomenon. It uses abstract models to explain the economic honeymoon. Importance of macro economics The importance of macro-economics can be analysis on the basis



of following headings: 1 . Public policy formulation: Macro-economics is useful for formulation and execution of government policies. The main concern of government is with the people.

Hence, the attention of government is focused on general price level. Level of production, volume of trade and so on. 2. Simple study of all sectors: The study of all sectors needs the macro-economic approach. In modern days there are many things to be studied by men. It is almost impossible to study them individually. 3. Understand general unemployment: The use of micro-economics is useful to solve complex economic problems of present day. The causes, effects and remedies of general unemployment can be understood from micro-economics. The general unemployment occurs due to the deficiency of effective demand. . Evaluate the performance of the economy: Micro-economy is useful to evaluate the performance of the economy based on national income. One the basis of the analysis of national income we can say whether the economy is performing well or not. 5. Formulate the strategy of economic growth: The study of economic growth the scope of macro- economics. The capacity and source of growth of the economy can be found out from macro-economics. The strategy to increase production income, investment and employment to augment economic growth can like fiscal and monetary policies. 6.

Solution of monetary problems: The monetary policy can be understand and analysis from macro-economics. The inflation and deflation have serious effects on the economy. 7. Understand trade cycle: There was great depression during sass. This drew the attention of economists towards trade

cycle. The trade cycle covers whole part of the economy. Hence, it falls within the scope of macro-economics. . Solution of complex economic problem of modern times: Macro-economics deals with some of the challenging issues of modern times such as unemployment, inflation, welfare: .

The study of economic helps to welfare well being of whole nation. The study social welfare is the study of macro-economic problems. The material well being off nation depends on national income and employment. 10.

Understand the working of the economy: The study of micro-economic is indispensable for understanding the working of the economy. Because the economy as a whole is concerning with behavior of total income, output, employment and general price bevel. 11. Understand the behavior of individual units: Macro-economics is important to understand the behavior of individual units.

Because the demand for individual products depends on aggregate demand in the economy. 12. Useful is business decision making: Macro-economics is also useful in business decision making. The knowledge of aggregate demand and supply helps in production and pricing decisions. The macro-economic policies like fiscal policies, monetary policy have profound effects on business activities. Summary: Microeconomics and macroeconomics are important studies within economics that re essential to sustain the overall growth and standard of the economy.

While the two studies are different, with microeconomics focusing on the smaller business sectors, and macroeconomics focusing on the larger income

of the nation, they are interdependent, and work in harmony with each other. The main differences are: 1 . Microeconomics focuses on the market's supply and demand factors, and determines the economic price levels. 2. Macroeconomics is a vast field, which concentrates on two major areas, increasing economic growth and changes in the national income. 3. Microeconomics facilitates decision making for smaller business sectors. . Macroeconomics focuses on unemployment rates, GAP and price indices, of larger industries and entire economies. Microeconomics and macroeconomics are the fundamental tools to be learnt, in order to understand how the economic system is administered, and sustained.

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