

Macroeconomics and microeconomics explained essay

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



Macroeconomics and microeconomics forms the two major important studies within the branch of economics that are both essential in sustaining the overall growth and standard of the economy. They are interdependent and work in liaison with one another. However they differ in a number of ways both in terms of their scope and implementation. Whereas microeconomics tends to focus on smaller business sectors, macroeconomics focuses on the larger income of a country.

Macroeconomics is defined as the study of the behaviors and activities of the economy as a whole. It encompasses the study of unemployment, gross domestic products, price indices, national output, consumption, savings, inflation, international trade, investment as well as international finances. Thus macroeconomics in general terms focuses on economic growth and changes in the national income. On the other hand microeconomics mainly focuses on the market's forces of supply and demand which determine the economy's price levels. It looks at the behaviors and activities of economic units such as individual households and firms, which make up the whole economy (Jain & Ohri 2003) The main distinguishing feature between Microeconomics and Macro economics is based on their levels of operation. Whereas microeconomics operates on an individual level that tries to establish the demand and supply of individual goods and services as well as with consumer behavior in terms of budget line and constraints, macroeconomics entails studying the consumer demand and supply to determine the price level, inflation and unemployment levels among other factors. Macroeconomics mainly employs two strategies which can only be undertaken by the central government through the central bank, these are

monetary policy and fiscal policy. Fiscal policy includes the governments' use of taxation and government spending to influence the general direction of a nation's economy.

In terms of the monetary policy tool, the government controls the monetary authority, the central bank of a country, by influencing the availability and supply of money and interest rates so as to sustain the growth of the economy; they can be expansionary or contractionary. Herein tools such as open market operations, discount window lending, minimum reserve requirements among others are used. A good example of a microeconomic situation can best be exhibited through the production of goods and services by an individual firm with an aim of maximizing its profits subject to the prevailing market prices.

Herein the firm will be torn between what and how much to produce in order to remain profitable and competitive, putting into consideration that prices are externally determined by the market forces of demand and supply. A macroeconomic example can come in the form of the government reviewing its taxation policy, herein the government can decrease consumption by increasing the tax paid on income or alternatively lower the tax paid so as to allow its citizenry to have more money available for spending thereby increasing consumption. A microeconomic decision that I have made was opting to invest my savings in a government bond as opposed to keeping it in my banks saving account, this was after putting into consideration the returns that the two investment option were going to give me based on there interest rates and also based on the prevailing inflation rates. The

government bond was more profitable considering they offer a higher interest rate therefore higher returns and a surety that my principle amount will be given back upon the maturity period, moreover this option also hedged my money against inflation. A business decision that has been influenced by a macroeconomic decision is the one whereby our firm had come to the decision of expanding our branch coverage to tap on new emerging markets , but this necessitated that we get external funding from financial institutions. the planned for interest rate was agreed upon but before the application was made the central bank increased its interest rates and this meant we had to pay a larger amount in terms of interest, since the amount was not economical we opted to postpone our expansion plan until the interest rate was favorable. Reference; Deepashree. (2006).

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