

Economics divided into microeconomics and macroeconomics economics essay

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



In the world for people to work is to earn money, and then spend their money to buy the things that they need in life, and this earning and spending of wealth are studied under Economics. Economics is the study of how individuals and societies allocate those resources; also it is often described as a body of knowledge or study that discusses how a society tries to solve the human problems of unlimited wants and limited resources. Because human behavior is related to economics, the study of economics is classified as a social science. The limited resources are divided into four general categories such as land, human resources, capital, and entrepreneurship. And the resources in the world are scarce but people have unlimited wants and so there is not enough of it to satisfy people wants. Because of unlimited wants and limited resources to satisfy those wants, economic decisions must be made; for example people decide whether to rent or buy a house, or decide whether take taxi or bus to go to school. This problem of limited resources must need to deal with, which to cause economic and economics problems. Therefore, scarcity means people can't have anything they want because resources are limited, and it sum up with choice is the basic problem of economic.

b)

The concept of opportunity cost is the central theme of the study of Economics and means there is a trade off, also help us to improve the decision-making skill. People make economic decisions, it is because of limited resources, and every decisions has opportunity cost. An opportunity cost included in the choice is people make the decisions based on expecting

greater benefits from one alternative than something else. Opportunity cost is the best alternative that must be given up in order to choose another option or means to make a best available choice. For example, we have a thousand dollars, we can use it in different ways such as choose to buy electrical appliance or donate to charity. If we use the thousand dollars to buy electrical appliance, the opportunity cost of the electrical appliance is charity donation. Once we use the thousand dollars to buy electrical appliance, we forgo the chance of donate the money to charity.

Circumstances also play a role in opportunity costs. Occasionally, people forced into a decision because of circumstances and the result may not always be best. For instance, if a football club is planning to buy a new football player who is very expensive and wants to sell some players in their club to be able to purchase a new player, the football club may sell their player for less than the market value in order to complete the process. The opportunity cost is the value of given up their current player in order to be able to purchase a new player. In the example used above, the opportunity costs are subjective can't always be measured and show as only the person can know worth to do it or not and only the person can judge the value of their alternatives since they have own personal preferences and circumstances.

c)

Economics usually divided into microeconomics and macroeconomics.

Microeconomics is the study of economics how firms and individuals make decision in a market setting such as goods or services are being bought and

sold. It is considered with the interaction between consumers and producers and how taxes and price controls influence consumers and producers. It is concerned how consumers behave and examines how businesses can be most successful. Especially, microeconomics focuses on patterns of supply and demand the determination of prices in the markets. Macroeconomics is a study of the overall aspects and workings of a national economy, such as income, output, and the interrelationship among diverse economic sectors. It is focused on national income, nation's money supply and money demand and the value of money. The objectives of macroeconomic include balance of payments, price stability, full employment and economic growth. It generally has applications for government policies and public finance. Therefore, microeconomics focuses on small-scale economics decision and macroeconomics focuses on large-scale economics decision.

Task 2

a)

The individual demand curve is a graphic depiction of the data in the demand schedule. The demand schedule is a table lists the quantity of a good that would be demanded at various price levels and show the relationship between price and quantity demanded of a good. The graph with price on the vertical axis and quantity on the horizontal, the demand curve slopes downward from left to right indicating higher quantity demanded at lower prices. The market demand curve for good includes the quantities of good demanded by all consumers in the market for a good. The market

demand curve is derived by taking the horizontal summation of all consumers demand curves.

b)

C: Documents and SettingsOwneræ;Æé IMG_0249. jpg figure 1. 1

The firm sets output at Q_1 , where short-run marginal costs equal marginal revenue. The firm decides whether or not to produce in the short run. If the price at which this output is sold covers average total, profit is positive at the output Q_1 . If Price is above $SATC_1$, the firm is making a profit in the short-run and should certainly produce Q_1 . If price is less than $SATC_1$, the firm doesn't cover costs, it is losing money, in the short-run, and even at zero output it must pay its fixed costs. The firm needs to know whether losses are bigger if it produces a Q_1 . If the price above $SAVC_1$ the firm is earning something towards its overheads. Even though Q_1 may involve losses, if it still produces Q_1 . If the price is below $SAVC_1$ the firm produce zero.

Therefore the firm's short-run output decision is to produce Q_1 , the output at which marginal revenue equal to short-run marginal costs, if the price covers short-run average variable cost, at that output. Otherwise, the firm produce zero.

c)

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As we know that the output of maximum profit, or minimum loss, is at B, so in the long run the firm chooses its output level at point B where marginal

revenue equals marginal cost. The firm then checks whether it is making profit or losses at this output. It should go out of business if it makes losses. If price is equal to or more than LAC_1 , the firm just breaks even or making profit and stays in business. If the price is below LAC_1 , the firm long-run output decision makes losses and should close down. Therefore the firm's long-run decisions use the marginal condition to find the best output provided the firm remains in business, and then produce this output if price is above LAC . If not, it should produce zero, and not stay in business if it makes losses for ever.

Task 3

a)

Table 1 Demand and supply of coke

(a)

Price

(£/can)

(b)

Demand

(no. of cans)

(c)

Supply

(no. of cans)

0. 00

250

0

0. 10

200

0

0. 20

150

50

0. 30

100

100

0. 40

50

150

0.50

0

200

Demand is not a particular quantity, but rather a full description of the quantity of coke buyers wish to purchase at each conceivable price. The first column of Table 1 shows prices per can of coke. The second column shows the quantities demanded at these prices. The price of coke increases, the quantity demanded falls. We suppose no one buys any coke if the price is above £0.40. Together, columns (a) and (b) describe the demand for coke as a function of its price.

Supply is not a particular quantity but a complete description of the quantity that sellers wish to at each possible price. Coke can't be supplied for free. No one would supply at a zero price. In Table 1, it takes a price of £0.20 before there is an incentive to supply coke. At higher prices, the quantity supplied rise. Together, columns (a) and (b) describe the supply of coke as a function of their price.

The demand and supply schedules are each constructed on the supposition of other things equal. Other things equal, the lower the price of coke, the higher the quantity demanded. Other things equal, the higher the price of coke, the higher quantity supplied. People get sick from drinking too much coke, would change the 'other things' relate to the demand for coke. The change would reduce the demand for coke, reducing the quantities

demand at each price. Spend lower costs to produce a can of coke, would change the 'other things' relate to the supply of coke. The change increase the supply of coke, increasing the quantity supplied at each possible price.

Suppose, originally, that all these other things remain constant. We put the behavior of buyers and sellers together to model the market for coke. At low prices, the quantity demanded is above the quantity supplied but the reverse is true at high prices. The quantity demanded just equals the quantity supplied; we call it the equilibrium price. When the quantity buyers wish to buy and sellers wish to sell, the condition is show in the table 1 the equilibrium price is £0. 30, at which 100 cans is the equilibrium quantity.

b)

According the table 1, the prices above £0. 30, the quantity supplied exceeds the quantity demanded. Sellers have unsold stock. The economists call this overcapacity as excess supply. The quantity demanded and quantity supplied only equal at equilibrium price. The market clears. The excess supply makes the higher price; it is above the equilibrium price and makes the demand falls. In table 1 the price at £0. 50, suppliers offer 200 cans of coke but no one buys at this prices. So sellers need to cut the price cheaper to clear their stock. Cutting the price to £0. 40 the quantity demanded has raises to 50 cans and quantity supplied falls to 150 cans. These two effects reduce excess supply. Price keeps cutting until it's reached the equilibrium price and the excess supply does not exist, the market clears.

c)

If the price is below equilibrium price the process works in opposite. The excess demand appears when the quantity demanded exceeds the quantity supplied. In table 1 at a price of £0. 20, 150 cans are demanded but only 50 supplied. There is a shortage and the seller charge higher prices. This incentive to keep increasing until the equilibrium price is reached, excess demand does not exit and the market clears.

Task 4

a)

C: Documents and SettingsOwneræ;Æé IMG_0248. jpg Figure 1. 3

In a perfectly competitive market, both buyers and sellers believe their individual's action does not affect the price on the market. Each firm in a perfectly competitive industry faces a horizontal demand curve in Figure 1. 3, thus, the price is determined by the market. For example, the firm selling price above P_0 it won't sell any output; the buyers can just go to other firms for a product is just as good or a better price. The firm rise its price will make loose market share and profit. The selling price of a good won't less than P_0 , because the firm can sell as much as it wants at P_0 . The individual firm's demand curve is DD. The price is fixed is the key feature of a perfectly competitive firm. Perfect competition is characterized by four attributes. First, there must be a large number of firms, each trivial relative to the entire industry. Second, the product must be making homogeneous product, buyers would change between firms if their prices differed. Third, the firm must has perfect knowledge of all market situations The fourth characteristics of

perfect competition is firms are allowed to enter and exit freely. Despite existing firms could arrange themselves to limit total supply and drive up the market price, the effect rise in revenues and profits that make the new firm get interest into the industry, thus increasing total supply again and driving the price falls. Inversely, when firms in a competitive industry are losing money, some of firms will close down and the number of firms remaining in the industry getting less, the total supply decrease and drive the price up, thru the firms remain in the industry are allow to survive. It is the fact that the perfect competition is does not exist.

b)

In an oligopoly, there are only few dominant firms and numerous consumers in the market. One thing in common of oligopoly is any given oligopolistic firm's behavior depends on other firm's behavior in the industry. This select group of firms might divide into non-cooperative oligopoly or cooperative oligopoly in the marketplace. The firms in an oligopoly are a price maker, control the price level of an oligopolistic firm depends on the price level of the other firms in the market. In oligopolies, it is not easy of entry and exit, so the entry and exit barriers exist. The cause of entry barriers are limited licenses issued by government or economies of scale. The products of oligopolistic firms may be similar or differentiated, but different quality, so due to the market force, the firms fight for the market share are interdependent. For example assume that an economy needs only 200 cows Farm A supply 100 cows and the other 100 cows supply by its competitor Farm B. Two farms will be interdependent on the prices, therefore, similar.

So, if Farm A get greater market share as a result of it starts selling the cows at a lower prices, thus Farm B are forced to follow suit. Another oligopoly characteristic is mutual interdependence in decision-making. The firm's make decisions will consider the rivals response. For example, supermarket A sells \$5 for an apple based on supermarket B and Supermarket C were to change their prices, then restaurant A would review their pricing.

kinked

The kinked demand curve is a figure of oligopoly that facing each individual firm has a kink in it by demand curve. The kink follows from the assumption that rival firms will not follow if a single firm increase price but will follow if a single firm decrease price. If an raises in price, above P, which is not followed by rivals, the firm will lose a large quantity demanded in a result and become not able to compete equally to other firms, therefore, an increase in price, demand is elastic. If the price decreases, below P, the other rival firm also cut the price as well so the firm will not gain as much quantity demanded. Therefore, price decreases, demand is inelastic.

Task 5

a)

Keynesian economics is based on Keynes's book " The General Theory of Employment, Interest and Money" published in 1936, ideological basis for economic theory, contend that a country adopt expansionary economic policy to promote economic growth by increased demand. Keynesian

economic theory believes that the macroeconomic trends will be restricted the specific behavior of individuals. Since the late 18TH century, political economics or economics is based on continuous development of production, thereby increasing economic output, and Keynesian believe that the reduction on aggregate demand for goods is the main reason of economic recession. Proceeding from this point, he thought the measure to maintain the overall of economic activity data balance can be balance on the Marco supply and demand. Thus, Keynes's and other economics theory based on Keynesian economics is called macroeconomics, is difference from the microeconomics which is focus on research individual behavior. Keynesian economics theory, the main conclusion is that the production and employment to the direction of full employment develop the strong automatic mechanism is does not exist in economy. This is relative to Say's Law from neo-classical economic, who think that the automatic adjustment of price and interest will trend to create full employment. Attempts to macroeconomics link with microeconomics, this effort make Keynes General Theory become the most fruitful part in the following economics research, on the one hand micro-economist trying to find their expression in macro-thinking, on the other hand, such as monetarist and Keynesian economist tried to find out a steady microeconomic foundation with Keynesian economics theory. This trend developed into a neoclassical synthesis after World War.

In my view, the Keynesian economics is stand up for government leading, when it is in the economic downturn. The problem is lack of demand leads to great depression, so the government active intervention in the economy is to find the way to expand demand, the creation of employment opportunities for stimulate the economy, by the expansionary fiscal policy drive investment from the private sector, to play a multiplier effect, and restore economic prosperity. The Keynesian economic policy, keep the economic prosperity for a long time, but at last due to people's rational expectations and self-protection, emergence of inflation and rising unemployment, stagflation phenomenon of alternating, this is a side effect of Keynesian economic. Therefore, force the economics return to market regulation, and it is the monetarist economics.

b)

Monetarist economics is the 20th century, 50 to 60 emerged a genre of bourgeois economics, also know as monetarist. Keynesian economics the expansion of effective demand in demand management policies, despite simulating the development of production and delaying the economics crisis played a certain role; it has caused a sustained inflation. The monetarist is to stop inflation and opposed to government intervention in the economy, challenge to the Keynesian economics theory and policy. The leaders Milton Friedman, in October 1976 he was awarded the Nobel Prize in Economics. Monetarist advocated implementing single monetary policy rules, which the money stock is the only policy tool by the government announced a permanently monetary growth rate, under the conditions of the monetary

growth rate in ensuring a stable and constant price level and predictable real national income in the long term average growth rate will be consistent.

Monetarists who believe that economic self-run result is tend to natural rate of employment. Natural rate of employment is determined by the practical factors such as resources, customs and technical and not related to monetary factor. When the natural rate of employment is in the economy, there is no inflation, also doesn't has any deflation. The standpoint and policy of monetarist, firstly the money supply is the determinants of nominal national income; the quantity of money change is the main reason for fluctuations in monetary income. Secondly the quantity of money in the short run can affect employment and real national income, can not affect the real variables in long-term, only the nominal variable can be affected. The long-term of employment amount and national income are always tending to the natural rate of employment. The automatic adjustment of the market mechanism can stabilize the economy; government intervention would cause fluctuations in the economy.

In my view, Monetarist economics is an alternative to Keynesian economic, it is stand up for market regulation can stabilize the economy and the government does not have any intervention in economic activity to avoid fluctuations in the economy. Economic stagnation and inflation, decline in labor productivity and capital accumulation under, Keynesian theory can not explain this phenomenon, and so monetary policy to replace the Keynesian, economy in the price level can ensure growth stably in the environment. Although inflation has been better controlled, low inflation, the

unemployment, decreased productivity and economic growth slowed down, these problems are exacerbated. Therefore, the monetary policy also is not a best way of solution.