

# [Microeconomics and macroeconomics flashcard](https://assignbuster.com/microeconomics-and-macroeconomics-flashcard/)

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Economics is the foundation of all commercial activity and comprises two areas: microeconomics and macroeconomics. Macroeconomics is concerned with the big picture, for example, the national economy and gross domestic product. By contrast, microeconomics is concerned with the small picture and focuses on theories of supply and demand. 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 “ makros-” 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. Macroeconomists study aggregated indicators such as Gross Domestic Product, unemployment rates, and price indices to understand how the whole economy functions. Macroeconomists develop models that explain the relationship between such factors as national income, output, consumption, unemployment, inflation, savings, 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. 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 macroeconomists study are: • The effects of general taxes such as income and sales taxes on output and prices • The causes of economic upswings and downturns • The effects of monetary and fiscal policy on economic health • How interest rates are determined • Why some economies grow faster than others Microeconomics 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 MacroeconomicsThere 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 newspapers 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 these terms mentioned are sub-categories of economics itself. As the names 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.

Macroeconomists are often found to make different types of models, and 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.