

# Microeconomics short notes assignment

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



This is the use of economics to describe the activities which are happening in the world. It is also called "what is" or "descriptive". Normative economics is the use of economics to recommend changes.

It means advancing on how things "should be". It is also called prescriptive analysis.

**The market economy** An economy that is entirely run by the market forces demand and supply and there is no government involvement in the economy. A pure market economy may not exist in the real world.

**Price mechanism** Refers to the system where the forces of demand and supply determine the prices of commodities and the changes therein. It is the buyers and sellers who actually determine the price of a commodity. This is also called the invisible hand (Adam Smith).

**Command economy** An economy entirely run by the government. The government decides: What to produce, How much should be produced, The price at which the goods will be sold at.

**Mixed market economy** An economic system that has both the free market system and the government involvement in the economy.

**Assumptions** Assumptions are important in the study of economics because in the real world a lot of things happen at the same time. Therefore we assume that certain things are constant. **Setters** Parameters - all other things are held the same or constant.

This is a graph that indicates the various production possibilities of two commodities when resources are fixed.

**Opportunity cost** The next best alternative foregone. This is because resources are limited. If several things are given up, the opportunity cost is the best thing given up.

**Trade off** This means giving up one thing to obtain something else. The trade off causes the opportunity cost.

**Opportunity cost vs. Trade off** Trade off simply means sacrificing what you have to get something else. Opportunity cost refers to

comparing cost and benefits of alternative choices Scarcity (unattainable production) A problem that arises since peoples unlimited wants always exceed the limited resources Economic growth This is the expansion of a country productive potential Absolute advantage A person can produce both goods using the least amount of resources Comparative advantage Producing a good if a person can produce a good at a lower opportunity cost than another person.