

# **FACULTY OF JURIDICAL SCIENCES**

# LECTURE 1



# **INTERDEPENDENCE OF MICRO AND MACRO ECONOMICS**

Economics is broadly divided into two different categories namely microeconomics and macroeconomics. Microeconomics is the study of specific segments and markets of an economy. It looks at the issues like consumer behavior, individual labor market, and theory of firms. On the other hand, macroeconomics is the study of the whole economy. It looks at the aggregate variables such as aggregate demand, national output, and inflation.

## **MICRO ECONOMICS**

Microeconomics focuses on the choices made by individual consumers as well as businesses concerning the fluctuating cost of goods and services in an economy. Microeconomics covers several aspects, such as –

- Supply and demand for goods in different marketplaces.
- Consumer behavior, as an individual or as a group.
- Demand for service and labour, including individual labour markets, demand, and determinants like the wage of an employee.

One of the main features of microeconomics is it focuses on casual situations when a marketplace experiences certain changes in the existing conditions. It takes a bottom-up approach to analyses the economy.

## **Components of Microeconomics**

- Market demand and supply
- Consumer Behavior
- Producers are driven by individual preferences.
- Market-specific labor markets

# MACRO ECONOMICS

Macroeconomics studies the economic progress and steps taken by a nation. It also includes the study of policies and other influencing factors that affect the economy as a whole.

Macroeconomics follows a top-down approach, and involves strategies like –

- The overall economic growth of a country.
- Reasons that are likely to influence unemployment and inflation.
- Fiscal policies are likely to influence factors like interest rates.
- Effect of globalization and international trade.
- Reasons that affect varying economic growths among countries.

Another feature of macroeconomics is that it focuses on aggregated growth and its economic correlation.

## Components of Macroeconomics

- National Output
- Unemployment
- Inflation

- **Micro Economic analysis and Macro Economic analysis are complementary to each other;**
- **They do not complement but supplement each other.**
- **The basic goal of both the theories is same: the maximization of the material welfare of the nation.**
- **From the micro economic point of view, the nation's material welfare will be maximized by achieving optimal allocation of resources.**
- **From the macroeconomic point of view, the nation's material welfare will be maximized by achieving full utilization of productive resources of the economy.**
- **The study of both is equally vital so as to have full knowledge of the subject-matter of economics.**
- **The contemporary economists are concerned with both micro economics and macro economics.**