

1.

INTRODUCTION TO MICRO ECONOMICS

Q.1 Fill in the blanks with appropriate words: (1 mark each)

- 1) Economics is a _____ science.
a) natural b) **social** c) political
- 2) Micro and _____ economics are the two main branches of economics.
a) **macro** b) public c) general
- 3) Micro economics studies _____.
a) **individual behavior** b) national income c) trade deficit
- 4) Micro economics is also referred to as the _____ theory.
a) **price** b) income c) demand
- 5) Term micro economics was first used by _____.
a) **Ragnar Frisch** b) Adam Smith c) Marshall
- 6) Prof _____ is mainly concerned with micro economics.
a) **Boulding** b) Keynes c) Pigou
- 7) _____ economics believes in the non-intervention policy by the government.
a) **micro** b) macro c) micro
- 8) Micro economics study is the _____ study of whole economics.
a) **microscopic** b) general c) unrealistic
- 9) Micro economics makes use _____ equilibrium analysis.
a) **partial** b) general c) aggregate
- 10) Micro economics uses _____ method.
a) **slicing** b) lumping c) different
- 11) The word micro is derived from the Greek word _____.
a) **mikros** b) small c) macro
- 12) Micro economics deals with study of _____.
a) aggregates b) **units** c) price
- 13) Prices of products depend upon forces of _____.
a) Demand b) supply c) **demand and supply**
- 14) The term 'microeconomics' is derived from the Greek word _____.
a) micros b) **mikros** c) makros
- 15) Microeconomics is concerned with study of _____.
a) national income b) gross output c) **individual consumer**
- 16) Microeconomics adopts _____ approach.
a) **individualistic** b) comprehensive c) supportive
- 17) A study of _____ is micro economics.
a) whole economy b) industries c) **firm**

Q.2 State whether true or false: (1 mark each)

- 1) Micro economics studies individual units of the economics. **True**
- 2) Micro economics using slicing method. **True**
- 3) Micro economics could not provide solution for the depression of 1930's. **True**
- 4) Micro economics does not deal with national problems like inflation, business cycles etc. **True**
- 5) Micro economics is the study of aggregates. **False**
- 6) Microeconomics adopts general equilibrium approach. **False**
- 7) Micro economics is also called price theory. **True**
- 8) Price determination of a product is deal of micro economics. **True**

- 9) Scarcity of resources arises only in poor countries. **False**
 10) The subject matter of economics is divided into microeconomics and macroeconomics. **True**
 11) Theory of value is the key area of micro economics. **True**
 12) The problems of nation are studied in the micro economy. **False**
 13) Price theory is the base of microeconomics analysis. **True**

Q.3 Match the following: (1 mark each)

A	B
1) Aggregate	a) Small
2) Factor pricing	b) National income
3) Product pricing	c) Rent, wages, interest and profit
4) Micro & macro economics	d) Demand and supply theory
5) Mikros	e) Ragnar Frisch

Ans: 1)=b), 2)=c), 3)=d), 4)=e), 5)=a)

A	B
1) Micro economics	a) Oslo University
2) Adam Smith	b) Social science
3) Alfred Marshall	c) Wealth of nations
4) J.M. Keynes	d) Price theory
5) Economics	e) Employment theory
6) Ragnar Frisch	f) individualistic detailed study

Ans: 1)=f), 2)=c), 3)=d), 4)=e), 5)=b), 6)=a)

Q.4 Explain with reasons whether you agree or disagree with following statements: (2 marks each)

- 1) **Micro economics gives worm's eye view.** OR
 2) **Micro economics is also called slicing method.** OR
 3) **Micro economics studies individual units.** OR
 4) **Micro economics involves microscopic study of the economy.**

Ans **Agree**

Reasons:

- a) Micro economics is individualistic and microscopic.
 b) Micro economics studies the problems of small entities like
 i. demand, supply and pricing for a commodity
 ii. individual factor pricing (rent, wages, interest, profit)
 iii. particular, firm,

As it studies only a small part of whole economy. It is said to be assuming slicing method. It provides a worm's eye view.

- 5) **Microeconomics is the study of Aggregates.** OR
 6) **Microeconomics studies the forest and not the particular tree.**

Ans **Disagree**

Reasons:

- a) Micro economics is a branch of economics studying individual portion of an economy in detail.
 b) It does not cover the aggregate elements like population, employment, etc. in its subject matter.
 c) Micro economics studies economic behaviour of individual economic units
 d) Micro economics studies individual economic variables like individual demand, individual supply, etc.
 Thus, microeconomics is not the study of Aggregates but of individual unit.

7) **Micro economics helps in understanding of economic problems of nation.**

OR

8) **Micro economics helps in solving complex economic problems.**

Ans **Disagree**

Micro economics helps to solve the problems of any economic system. It includes.....

- a) What goods and services are to be produced?
- b) In what quality they are to be produced?
- c) How these goods and services are to be produced?
- d) For whom they are to be produced?
- e) Where they are to be produced?

Thus micro economics gives a detailed analysis of part of economy or society and not a whole nation.

9) **Microeconomics is also known as price theory.**

OR

10) **Micro economics is useful in product pricing.**

OR

11) **Micro economics is useful in factor pricing.**

Ans **Agree**

Reasons:

- a) The scope of micro economics includes the study of product pricing and factor pricing.
- b) Micro economics explains how the price of a particular commodity is determined on the basis of interaction of market demand and market supply forces.
- c) It also provides explanation for factor pricing such as wages to labourers, rent on land, interest on capital and profit to an entrepreneur.

Therefore, micro economics is also known as price theory.

12) **Study of micro economics helps in promoting welfare of the society.**

OR

13) **Optimum allocation of resources can be achieved with help of micro economics.**

Ans **Agree**

Reasons:

- a) Micro economics helps in formulation of economic policies which maximises/improves welfare of the public.
- b) Micro economics helps in allocating scarce resources in such a way we get maximum welfare/satisfaction without any wastage.

Thus, micro economics helps in allocating scarce resources for maximum satisfaction/benefits for the public.

14) **There are no weakness of the study of micro economics.**

Ans **disagree**

Micro economic is based on certain limitations or weaknesses which are as under.....

- a) Unrealistic assumptions.
- b) Ignorance to nation problems.
- c) Ignorance to aggregate analysis.
- d) Includes partial analysis only.

15) **Micro economics is based on assumptions.**

Ans **Agree**

Reasons:

Micro economics are based on certain assumptions

- a) All individuals behave in a rational manner.
- b) There is free flow of valid information about demand and supply, prices, and other market conditions.
- c) Goods and labour efforts are divisible.
- d) The study of micro economics is based on the assumptions of full employment and laissez-faire.
- e) Micro economics is based on the assumption 'ceteris paribus' which means other things being equal or constant.

16) There are no practical uses of micro economics study.

Ans **Disagree**

Reasons:

There are following uses of micro economics

- a) The study of micro economics helps in efficient allocation of resources.
- b) Micro economics analysis helps to formulate economic and monetary policies to promote welfare.
- c) Micro economics helps to understand the behaviour of the economic agents, labour, land owners, owners of capital and entrepreneurs.
- d) The study of micro economics is useful for decision making at an individual's/firm's level.
- e) Micro economics helps to understand the working of a free economy.

Q.5 Distinguish between: (2 marks each)

1) Individual problems and National problems

Individual problems	National problems
1. Meaning:- Economic problems faced by every individual in his/her day to day life are called individual problems.	1. Meaning:- Economic problems faced by nation are called national problems.
2. Nature:- Micro economics helps to solve the individual problems.	2. Nature:- Macro – economic helps to solve the national problems.
3. Solved by:- Individual problems can be solved by the person.	3. Solved by:- National problems can be solved by government.
4. Scope:- Scope of individual problems is limited as compared to national issues.	4. Scope:- Scope of national problem is wider as compared to individual issues.
5. Concept:- It is micro economic concept.	5. Concept:- It is macro economic concept.

2) Micro Economics and Macro Economics

Micro Economics	Macro Economics
1. Scope:- Micro-economics deals with small units.	1. Scope:- Macro-economic deals with large units.
2. Area of studies:- Micro-economics is concerned with the analysis of the behavior of individual economic units.	2. Area of studies:- Macro-economics is concerned with the analysis of the aggregate behavior of the economy as a whole.
3. Subject matter:- It deals with micro-variables like industries prices of particular commodities.	3. Subject matter:- It deals with macro-variables like national income price level etc.
4. Analysis:- Micro economics is a partial equilibrium analysis based on 'ceteris paribus assumptions.	4. Analysis:- Macro economics is a general equilibrium analysis as it deals with aggregates.
5. Nature:- The starting point of micro economics is independence.	5. Nature:- Interdependence is the basic point of macro-economics.

6. Methodology:- It studies small parts of the economic system so it is called the method of slicing.	6. Methodology:- It studies the entire economic system. So it is called the method of lumping.
7. Type of theory:- It is called price theory as it deals with the study of pricing in the products and factors markets and income distinction.	7. Type of theory:- It is called the income theory as it deals with the study of national income economic growth etc.
8. Depth of studies:- The scope of micro economics is limited.	8. Depth of studies:- The scope of macro- economic is wider.

Q6 Define or explain the concepts: (2 marks each)

1) Micro economics

Ans According to K.E. Boulding “Micro economics is the study of particular firms, particular household, individual prices, wages, incomes, individual industries, particular commodities.”

2) Partial economic analysis

Ans Micro economics studies individual units like household/firm/commodity/market. It studies the behaviour of micro variables.

In analysis, economist picks up a small unit/part of the economy and undertakes detailed observation and therefore it called partial economic analysis.

3) Ceteris Paribus

Ans Micro economics is based on the assumption 'ceteris paribus' which means other things being equal or constant or unchanged.

By making such assumption, we try to relate two variables.

This assumption is unreal and does not exist in reality.

Q7 Write answers in short: (4 marks each)

1) Define micro economics.

Ans According to K.E. Boulding “Micro economics is the study of particular firms, particular household, individual prices, wages, incomes, individual industries, particular commodities.”

According to Maurice Dobb “Micro economics is a microscopic study of the economy.”

Micro – economics is that branch of economic analysis which studies the economic behaviour of the individual unit/person/a particular household/a particular firm.

It is a study of a one particular unit rather than all the units combined together.

2) Explain assumptions of micro economics.

Ans Assumptions of micro economics are as under

- All individuals behave in a rational manner.
- There is free flow of valid information about demand and supply, prices, and other market conditions.
- Goods and labour efforts are divisible.
- The study of micro economics is based on the assumptions of full employment and laissez-faire.
- Micro economics is based on the assumption 'ceteris paribus' which means other things being equal or constant.

3) Explain features of micro economics.

OR

4) Explain characteristics of micro economics.

OR

5) Explain attributes of micro economics.

Ans Features/characteristics/attributes of micro economics are listed as under

1. Studies Individual Units:-

- Micro economics divides the economy into small individual units.
- Micro economics studies individual units like household/firm/commodity/market.
- Micro economics studies the behaviour of micro variables.
- In analysis, economist picks up a small unit and undertakes detailed observation.

2. Microscopic Approach:-

- Micro –economics takes a microscopic view of economy.
- To study how it works i.e. it studies the behaviour of individual consumers, producers markets, etc .
- Micro economics is not concerned with the whole or aggregate. It divides (slices) the whole into smaller individual units.
- This approach is known as 'Slicing Method.'

3. Price Theory:-

- Micro economics studies how the prices of individual commodities and factors of production are determined.
- Micro economics examines the forces of demand and supply to explain the determination of prices of both 'product' and 'factors of production' (rent, wages, interest , profit).

4. Analyses economic efficiency:-

- Micro economics studies how various resources available within the economy are efficiently allocated to individual producers and consumers.
- Economic efficiency involves efficiency in consumption and production.
- Micro economics explains
 - a) how an individual consumer maximizes his/her satisfaction
 - b) how an individual producer maximizes his/her profit.

5. Partial Equilibrium:-

- Micro economics studies a small part of the economy through partial equilibrium.
- Micro economics analyses equilibrium position of individual units such as individual consumer, firm, industry, market.
- Micro economics examines the trees and not the forest.
- In analysis, economist picks up a small unit/part of the economy and undertakes detailed observation and therefore it called partial economic analysis.

6. Undertakes general equilibrium analysis:-

- It assumed that micro economics does not analyses economy as a whole but this is not correct.
- Micro economics generally makes partial equilibrium analysis which is also concerned with general equilibrium analysis of the economy.
- Micro economics explains how all economic variables are inter-related and interdependent to each other. It shows how through various adjustment and readjustment they attain general equilibrium.

7. Economizing:-

- Micro economics explains how an individual consumption unit gets maximum satisfaction by efficiently utilizing scarce resources.
- Micro economics explains how an individual production unit gets maximum profit by efficiently utilizing scarce resources.

8. Construction of models:-

- Micro economics uses economic model to express complex phenomenon in understandable way.
- Economic model can be expressed in charts, diagrams, schedules, economic laws, etc.
- All economic models explain relationship between economic variables.

- 5) Explain importance of micro economics.
- 6) Discuss merits (advantages) of micro economics.
- 7) Explain uses of micro economics.

OR
OR

Ans Importance/merits/advantages/uses of micro economics are as under..

1. Understand working of a free market economy:-

- Micro economics helps us to understand the working of a free enterprise economy.
- Micro economics shows how the goods and services are produced and distributed for consumption through market mechanism.

2. Help in price determination:-

- Micro economics is useful in explaining how market mechanism determines price in a free market economy.
- The market forces of demand and supply determines price without any government intervention.

3. Optimum Resource Allocation:-

- Micro economics deals with efficient use of scarce resources.
- The main problem faced by economy is the allocation of scarce resources among the competing ends.
- Micro economics can be helpful to the government in the efficient employment of resources.

4. Economic Policies:-

- Micro economics is very useful in formulating economic policy such as tax policy, trade policy, price policy etc. to promote welfare of the people.

5. International Trade:-

- Micro economics explains many aspects of international trade like balance of payment, determination of exchange rate, impacts of tariffs on price etc.
- Micro economics explains and analyses how we can gain from international trade.

6. Helps in business planning:-

- A business firm faces the problem of scarcity of resources.
- One has to take various decisions to use the limited resources from various alternatives to obtain maximum productivity. One has to decide what, where, when, why and how to produce.
- The study of micro economics helps business unit to plan their business regarding cost of production, expectation of demand, etc.

7. Public Finance:-

- Micro economics explains how taxes affect social welfare. It helps us to understand whether an increase in income tax promotes welfare or vice versa.
- Micro economics studies the distribution and incidence of indirect taxes like excise duty or sales tax etc.

8. Helps in Marketing Prediction:-

- Micro economics is useful in marketing predictions based on demand forecasting, sales forecasting, etc.

9. Basis for understanding macro theory:-

- It is assumed that micro economics does not analyse economy as a whole but this is not correct.
- Micro economics generally makes partial equilibrium analysis which is also concerned with general equilibrium analysis of the economy.
- Micro economics explains how all economic variables are inter-related and interdependent to each other. It shows how through various adjustments and readjustments they attain general equilibrium.

Thus, micro economics forms basis for understanding macro economics theory.

- 8) Explain limitations of micro economics.
9) Explain weaknesses of micro economics.

OR

Ans Limitations/weaknesses of micro economics are as under

1. Based on unrealistic assumptions:-

- Micro economics theory is based on the assumptions of full employment laissez faire economy other things being equal etc.
- These assumptions are not real and do not exist in actual life.

2. Neglect the Whole Economic System:-

- Micro economics is confined to the study of individual units.
- Micro economics cannot explain the functioning of the economy as a whole.

3. Misleading Conclusions:-

- The result of micro –economics cannot be applied to the study of aggregates because what is true in the case of individual unit may not be true in the case of aggregates.

4. Marginalism:-

- Marginal means the impact of an addition of a single unit more.
- Micro – economics uses concepts like marginal utility, marginal product, marginal revenue etc.

But it is very difficult to realize this principle of marginalism in real life.

5. Analysis of Aggregates Ignored:-

- Micro economics deals with the individual units.
- But aggregates such as aggregate employment, national income etc. are more important which are not studied in micro economics.



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