

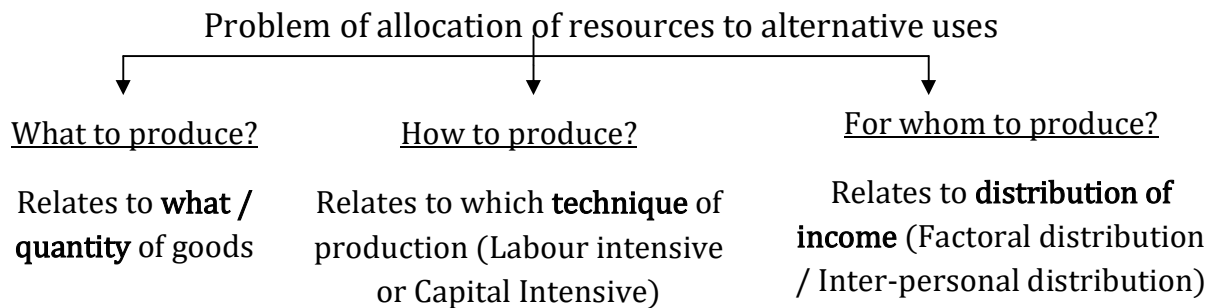
INTRODUCTION TO MICROECONOMICS

- Economics is the science dealing with **maximization of profits** and **minimization of losses**.
- Study of Economics is divided into two branches:
 - Micro economics
 - Macro economics

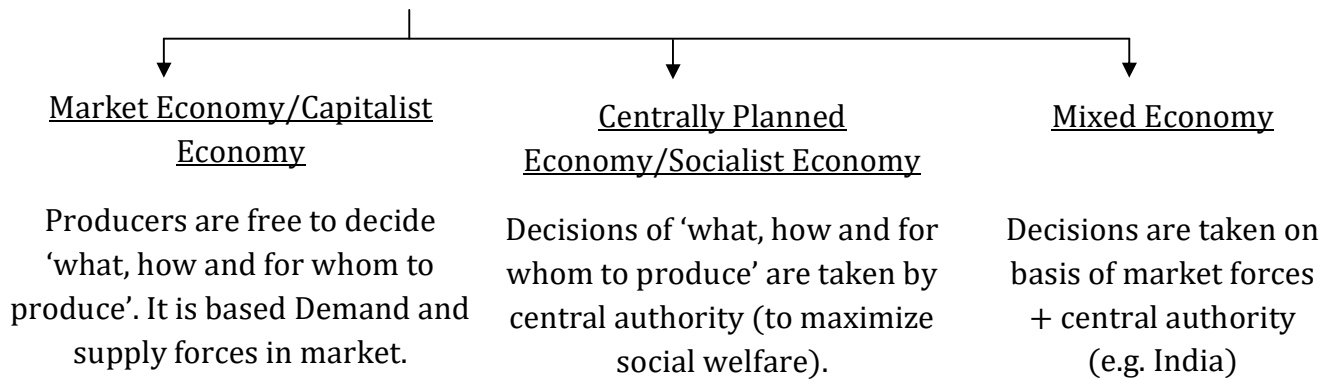
<u>SN</u>	<u>Micro Economics</u>	<u>Macro Economics</u>
1	Micro economics studies the behaviour of individual economic units .	Macro economics studies the behaviour of the economy as a whole .
2	Study of micro economics assumes that macro variables remain constant.	Study of macro economics assumes that micro variables remain constant.
3	Tools- Demand and Supply	Tools- Aggregate Demand and Aggregate Supply
4	Example- Individual Income	Example- National Income

- Problem of Choice = Economic Problem = **Problem of allocation of scarce resources to alternative uses**.
- Cause of economic problems are :
 - Unlimited Human Wants
 - Limited Economic Resources
 - Alternative uses of Resources.

→ Central Problems of an Economy



→ Different types of Economy



→ Production Possibility Curve (PPC)

- PPC is a curve showing **possibilities of production** of two goods with **given resources and technology**.
- Also known as Production Possibility Frontier or Transformation Line or Transformation Curve.
- Assumptions
 - Resources are fully utilized
 - There is no change in technology
- Features
 - Slopes downward from left to right
 - Concave to the origin

Because if production of one Good is to increase then production of other good has to be sacrificed.

Because of **increasing marginal opportunity cost or MRT.**

→ Shifts in PPC

- Rightward shift of PPC indicates increase in resources and/or improvement in technology.
- Leftward shift of PPC indicates decrease in resources and/or degradation in technology.

→ Opportunity Cost refers to the **value of next best alternative sacrificed**.

→ Marginal Opportunity Cost

- Also known as **Marginal Rate of Transformation**.
- It is defined as the additional units of a good which have to be sacrificed to produce an additional unit of the other good.
- It is expressed as $\Delta Y / \Delta X = \text{Loss of output for an additional unit of Good X}$.
- It refers to the **slope of PPC**.