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

SN	Micro Economics	Macro Economics
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

Problem of allocation of resources to alternative uses

What to produce?

Relates to **what / quantity** of goods

How to produce?

Relates to which **technique** of production (Labour intensive or Capital Intensive)

For whom to produce?

Relates to **distribution of income** (Factoral distribution / Inter-personal distribution)

- Different types of Economy

Market Economy/Capitalist Economy

Producers are free to decide 'what, how and for whom to produce'. It is based Demand and supply forces in market.

Centrally Planned Economy/Socialist Economy

Decisions of 'what, how and for whom to produce' are taken by central authority (to maximize social welfare).

Mixed Economy

Decisions are taken on basis of market forces + central authority (e.g. India)

- 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 $\Delta Y / \Delta X$ = **Loss of output for an additional unit of Good X.**
    - It refers to the **slope of PPC.**