

Difference between Microeconomics and Macroeconomics

“Economics is the science which studies human behavior as a relationship between given ends and scarce means which have alternative uses.”

Top 6 Difference Between Microeconomics And Macroeconomics

Economic is a study about how individuals, businesses, and governments make choices on allocating resources to satisfy their needs. These groups determine how the resources are organized and coordinated to achieve maximum output. And they are mostly concerned with the production, distribution, and consumption of goods and services.

Economics is divided into two important sections, they are: **macroeconomics & microeconomics**

⇒ macroeconomics deals with the behaviour of the aggregate economy and microeconomics focuses on individual consumers and businesses.

What is Microeconomics?

Microeconomics is the study of decisions made by people and businesses regarding the allocation of resources and prices of goods and services. The government decides the regulation for taxes. Microeconomics focuses on the supply, that determines the price level of the economy. It uses the bottom-up approach strategy to analyze the economy. In other words, microeconomics tries to understand human choices and resource allocation. Microeconomics does not decide what are the changes taking place in the market, instead, it explains why there are changes happening in the market.

The main key role of microeconomics is to examine how a company could maximize its production and capacity so that it could lower prices and better compete in its industry. A lot of microeconomic information can be gleaned from the financial statements.

the important key factors of microeconomics are :

- Demand, Supply, and Equilibrium
- Production Theory
- Costs of Production
- Labor Economics

Examples: Individual Demand, Price of a product.

What is Macroeconomics?

Macroeconomics is a branch of economics that depicts a substantial picture. It scrutinizes itself with the economy at a massive scale, several issues of an economy are considered. The issues confronted by an economy and the headway that it makes are measured and apprehended as a part and parcel of Macroeconomics.

Macroeconomics studies the association between various countries regarding how the policies of one nation have an upshot on the other. It circumscribes within its scope, analysing the success and failure of government strategies.

In macroeconomics we normally clarify the survey of how the nation's total manufacture and the degree of employment are associated with features (called 'variables') like :

- Cost prices
- Wage rates
- Rate of interest
- Profits etc.,

by concentrating on a single imaginary good and what happens to it.

The important concepts covered under microeconomics are :

1. A Capitalist Nation
2. Investment expenditure
3. Revenue

Examples: Aggregate Demand, National Income.

Top 6 Difference Between Microeconomics And Macroeconomics

Basis for Differentiation	Microeconomics	Macroeconomics
Meaning	Microeconomics studies the particular market segment of the economy	Macroeconomics studies the whole economy, that covers several market segments
Deals with?	Microeconomics deals with various issues like demand, supply, factor pricing, product pricing, economic welfare, production, consumption, etc.,	Macroeconomics deals with various issues like national income, distribution, employment, general price level, money, etc.,
Business Application	Applied to internal issues	Environment and external issues
Scope	Covers several issues like demand, supply, factor pricing, product pricing, economic welfare, production, consumption, etc.	Covers several issues like distribution, national income, employment, money, general price level, etc.,
Significance	Useful in regulating the prices of a product alongside the prices of factors of production (labour, land, entrepreneur, capital, etc) within the economy	Perpetuates firmness in the broad price level and solves the major issues of the economy like deflation, inflation, rising prices (reflation), unemployment and poverty as a whole
Limitations	It is based on impractical presuppositions, i.e. In microeconomics, it is presumed that there is full employment in the community which is not at all feasible	It has been scrutinized that Misconception of Composition' incorporates, which sometimes fails to prove accurate because it is feasible that what is true for aggregate (comprehensive) may not be true for individuals too

Meaning of Elasticity of Demand:

Demand extends or contracts respectively with a fall or rise in price. This quality of demand by virtue of which it changes (increases or decreases) when price changes (decreases or increases) is called Elasticity of Demand.

“The elasticity (or responsiveness) of demand in a market is great or small according as the amount demanded increases much or little for a given fall in price, and diminishes much or little for a given rise in price”. – Dr. Marshall.

Elasticity means sensitiveness or responsiveness of demand to the change in price.

This change, sensitiveness or responsiveness, may be small or great. Take the case of salt. Even a big fall in its price may not induce an appreciable extension in its demand. On the other hand, a slight fall in the price of oranges may cause a considerable extension in their demand. That is why we say that the demand in the former case is ‘inelastic’ and in the latter case it is ‘elastic’.

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The demand is elastic when with a small change in price there is a great change in demand; it is inelastic or less elastic when even a big change in price induces only a slight change in demand. In the words of Dr. Marshall, “The elasticity (or responsiveness) of demand in a market is great or small according as the amount demanded increases much or little for a given fall in price, and diminishes much or little for a given rise in price.” But the demand cannot be perfectly ‘elastic’ or ‘inelastic’.

Completely elastic demand will mean that a slight fall (or rise) in the price of the commodity concerned induces an infinite extension (or contraction) in its demand. Completely inelastic demand will mean that any amount of fall (or rise) in the price of the commodity would not induce any extension (or contraction) in its demand. Both these conditions are unrealistic. That is why we say that elasticity of demand may be ‘more or less’, but it is seldom perfectly elastic or absolutely inelastic.

Types of Elasticity:

Distinction may be made between Price Elasticity, Income Elasticity and Cross Elasticity.

Price Elasticity is the responsiveness of demand to change in price; income elasticity means a change in demand in response to a change in the consumer’s income; and cross elasticity

means a change in the demand for a commodity owing to change in the price of another commodity.

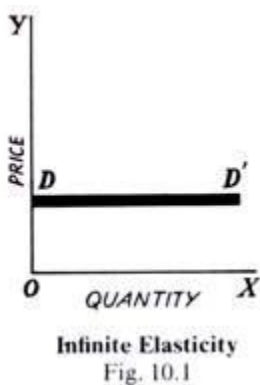
Degrees of Elasticity of Demand:

We have seen above that some commodities have very elastic demand, while others have less elastic demand. Let us now try to understand the different degrees of elasticity of demand with the help of curves.

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(a) Infinite or Perfect Elasticity of Demand:

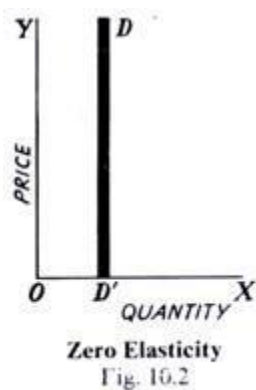
Let us first take one extreme case of elasticity of demand, viz., when it is infinite or perfect. Elasticity of demand is infinity when even a negligible fall in the price of the commodity leads to an infinite extension in the demand for it. In Fig. 10.1 the horizontal straight line DD' shows infinite elasticity of demand. Even when the price remains the same, the demand goes on changing.



(b) Perfectly Inelastic Demand:

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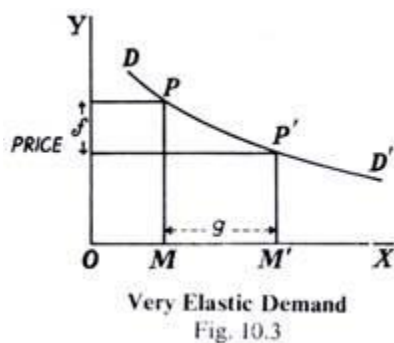
The other extreme limit is when demand is perfectly inelastic. It means that howsoever great the rise or fall in the price of the commodity in question, its demand remains absolutely unchanged. In Fig. 10.2, the vertical line DD' shows a perfectly inelastic demand. In other words, in this case elasticity of demand is zero. No amount of change in price induces a change in demand.



In the real world, there is no commodity the demand for which may be absolutely inelastic, i.e., changes in its price will fail to bring about any change at all in the demand for it. Some extension/contraction is bound to occur that is why economists say that elasticity of demand is a matter of degree only. In the same manner, there are few commodities in whose case the demand is perfectly elastic. Thus, in real life, the elasticity of demand of most goods and services lies between the two limits given above, viz., infinity and zero. Some have highly elastic demand while others have less elastic demand.

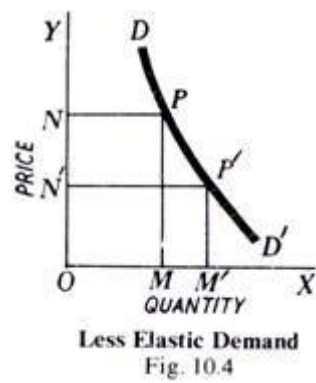
(c) Very Elastic Demand:

Demand is said to be very elastic when even a small change in the price of a commodity leads to a considerable extension/contraction of the amount demanded of it. In Fig. 10.3, DD' curve illustrates such a demand. As a result of change of T in the price, the quantity demanded extends/contracts by MM' , which clearly is comparatively a large change in demand.



(d) Less Elastic Demand:

When even a substantial change in price brings only a small extension/contraction in demand, it is said to be less elastic. In Fig. 10.4, DD' shows less elastic demand. A fall of NN'



in price extends demand by MM' only, which is very small.

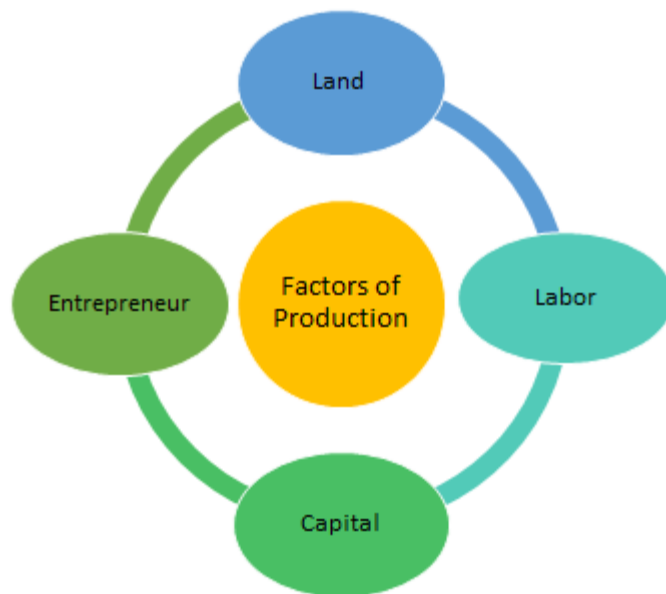
Factors of Production

Anything that helps in production is the factor of production. These are the various factors by mean any resource is transformed into a more useful commodity or service.

They are the inputs for the process of production. They are the starting point of the production process. Factors of production are the parameters which affect the output of production.

Types of Factors of Production

Factors of production have been categorized into four types.



Land

It refers to all natural resources. All natural resources either on the surface of the earth or below the surface of the earth or above the surface of the earth is Land.

One uses the land to produces goods. It is the primary and natural factor of production. All gifts of nature such as rivers, oceans, land, climate, mountains, mines, forests etc. are land.

The payment for land is rent.

Characteristics of Land as a Factor of Production

- The land is a free gift of nature.
- The land has no cost of production.
- It is immobile.
- The land is fixed and limited in supply.

Types of Land

1. Residential
2. Commercial
3. Recreation
4. Cultivation
5. Extraction
6. Uninhabitable

Labor

All human effort that assists in production is labour. This effort can be mental or physical. It is a human factor of production. It is the worker who applies their efforts, abilities, and skills to produce.

The payment for labour is the wage.

Characteristic

- It is a human factor.
- One cannot store labour.
- No two types of labour are the same.

Types of Labor

1. Unskilled
2. Semi-skilled
3. Skilled
4. Professional

Capital

Capital refers to all manmade resources used in the production process. It is a produced factor of production. It includes factories, machinery, tools, equipment, raw materials, wealth etc.

The payment for capital is interest.

Characteristics

- Capital is a manmade factor of production.
- It is mobile.
- It is a passive factor of production.

Types of Capital

1. Fixed
2. Working
3. Venture

Entrepreneur

An entrepreneur is a person who brings other factors of production in one place. He uses them for the production process. He is the person who decides

- What to produce
- Where to produce
- How to produce

A person who takes these decisions along with the associated risk is an entrepreneur.

The payment for land is profit.

Characteristics

- He has imagination.
- He has great administrative power.
- An entrepreneur must be a man of action.
- An entrepreneur must have the ability to organize.
- He should be a knowledgeable person.
- He must have a professional approach.

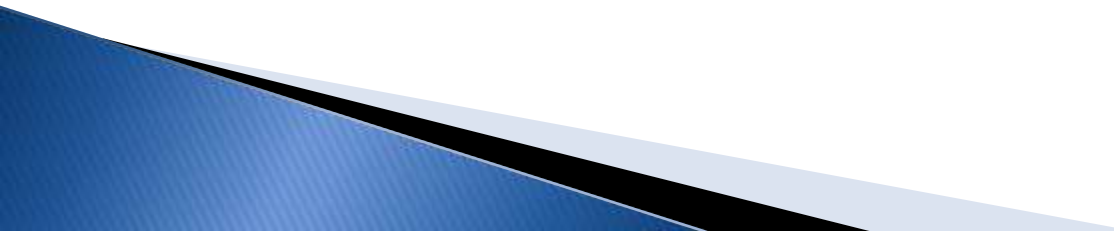
FORMS OF MARKET

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List Of Content

- ❖ Definitions of MARKET??
 - ❖ Types/Forms of Market
 - Perfect Competition & Its Features
 - Monopolistic Competition & Its Features
 - Oligopoly & Its Features
 - Monopoly & Its Features
 - ❖ Comparison
 - ❖ Conclusion
- 

What Is Market?

- A place where buying and selling occurs.

- According to economists,

“A market is the process by which the prices of goods and services are established”



The First Market

Barter System

The First Market System

- ❑ The first markets used the “**Barter System**”.
- ❑ It is a system of exchange by which goods or services are directly exchanged without using a medium of exchange, such as money.
- ❑ Invention of money resolved the problems of the barter system.



Inefficiency Of Barter System

1.

- Lack of Double Coincidence of Wants

2.

- Lack of store value

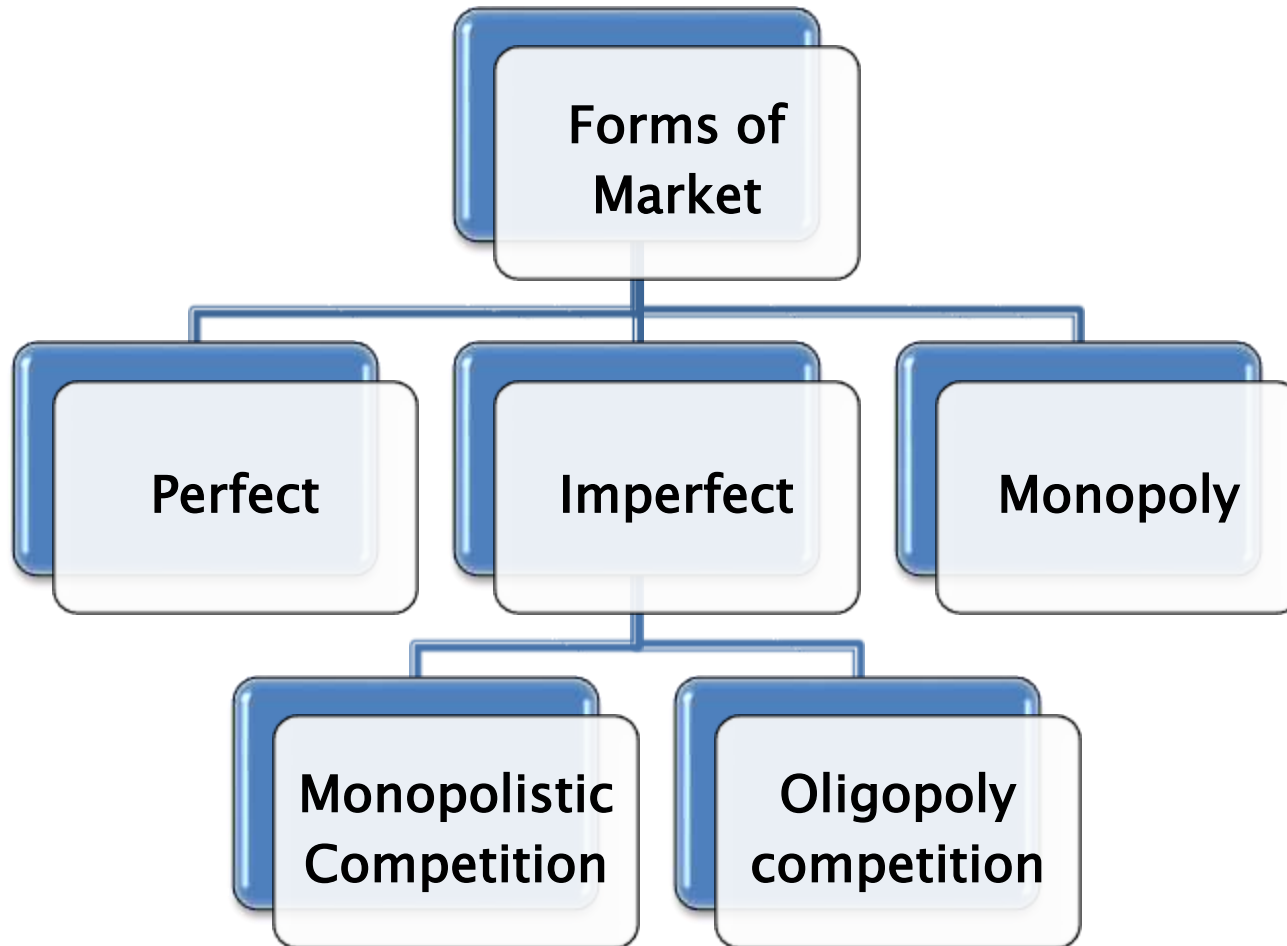
3.

- Lack of Division

4.

- Lack of a Common Measure of Value

Forms/Structures of Markets



More Competition

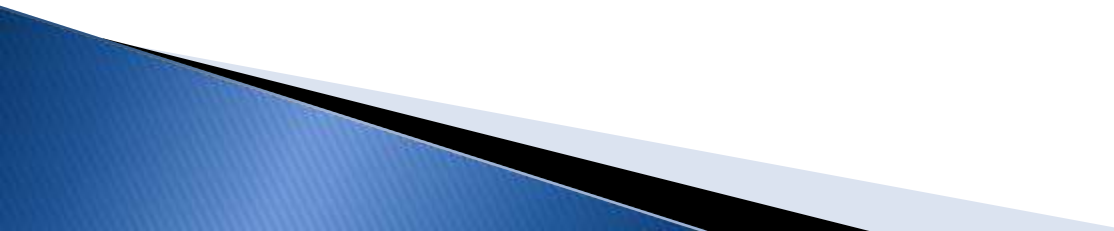
More Concentration

Types Of Market



Perfect Competition

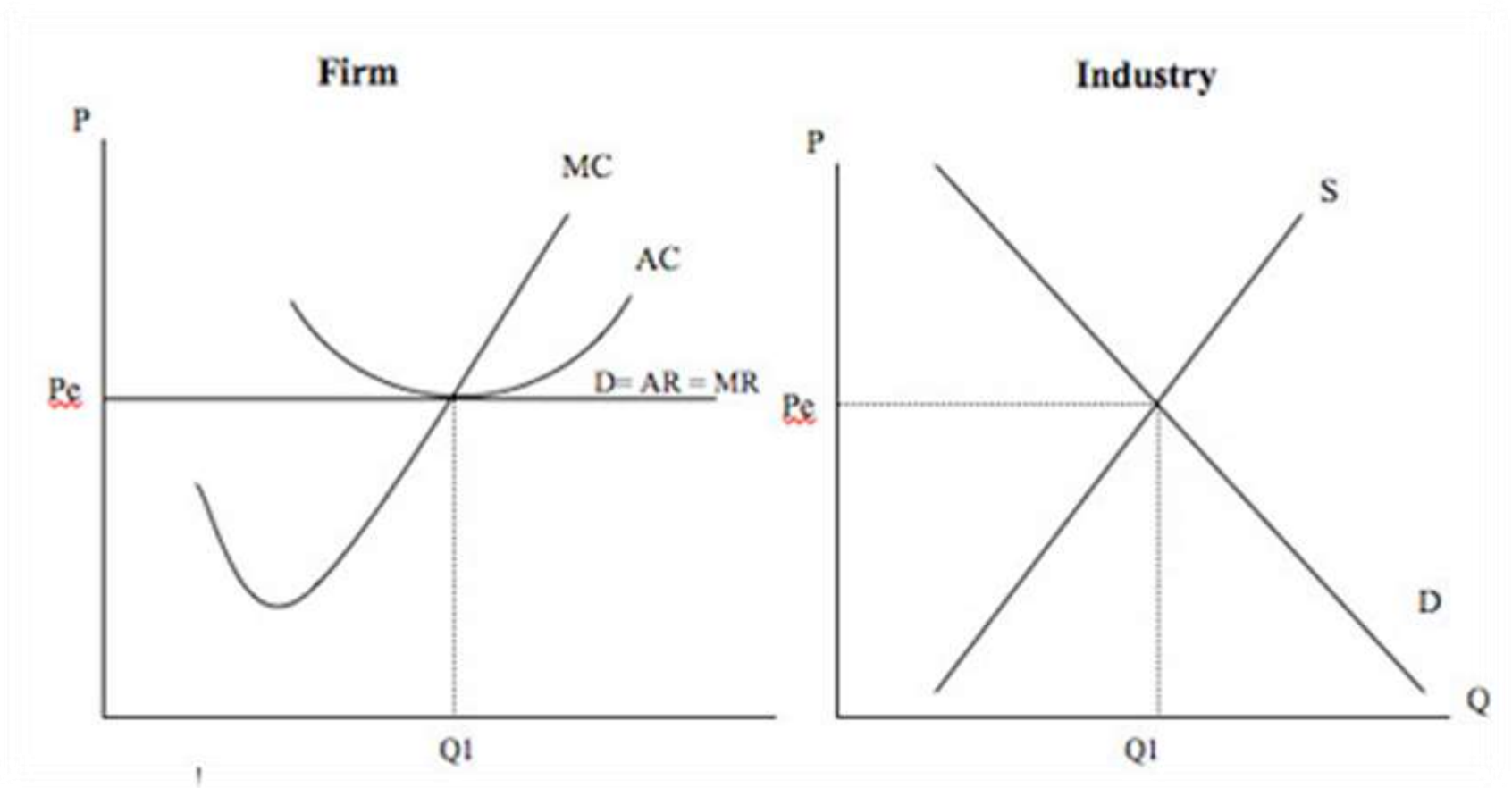
PERFECT COMPETITION

- ❑ A market form where there are many firms that sell a certain homogenous product.
 - ❑ A single firm can not influence the market price.
 - ❑ It is a hypothetical situation; it cannot exist in real case scenario.
 - ❖ In this nobody can influence the prices, including buyers and sellers
 - ❖ It is also believed that everyone has equal excess to information.
- 

Features of Perfect Competition

- ❖ Large number of buyers and sellers.
- ❖ Freedom of Entry and Exit; this will require low sunk costs.
- ❖ All firms produce an identical or homogenous product.
- ❖ All firms are price takers, Therefore firm's demand curve is perfectly elastic.
- ❖ There is perfect information and knowledge.
- ❖ $AR = MR$.

Perfect Competition Curves



Perfectly Elastic Demand Curve

Perfect Competition: Practical Applications

Foreign Exchange Markets

- ❑ Currency is all homogenous.
- ❑ Traders will have access to many different buyers and sellers.
- ❑ There will be good information about relative prices.

Rural Agricultural markets

- ❑ In some cases, there are several farmers selling identical products to the market.
- ❑ These markets often get close to perfect competition.

Types of Market



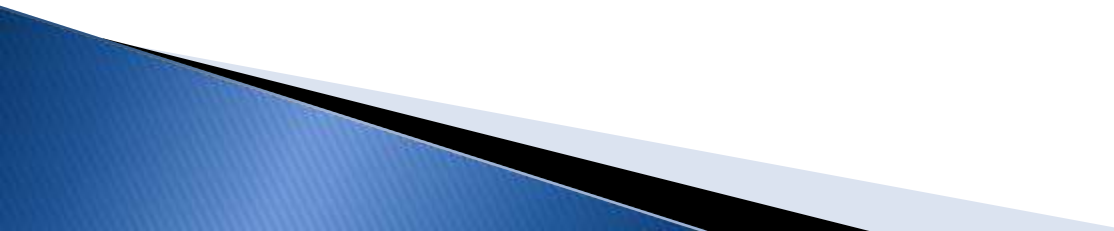
MONOPOLISTIC COMPETITION

Monopolistic COMPETITION

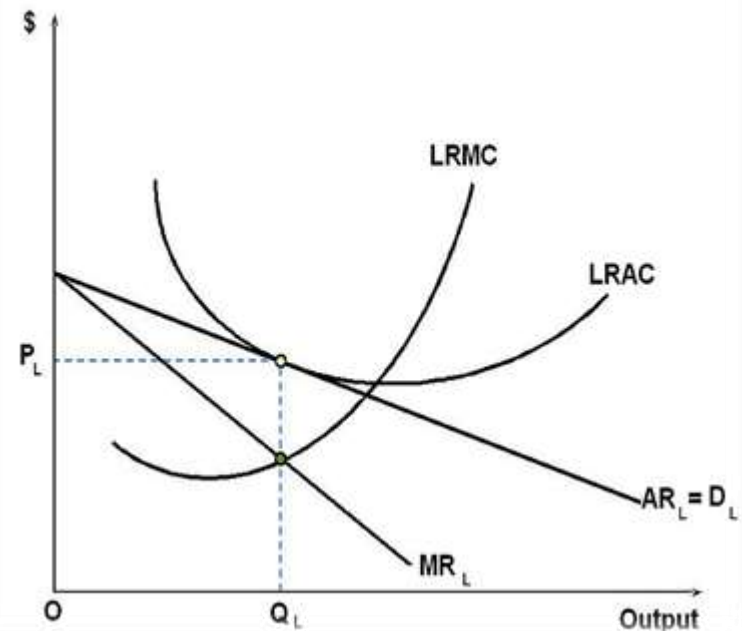
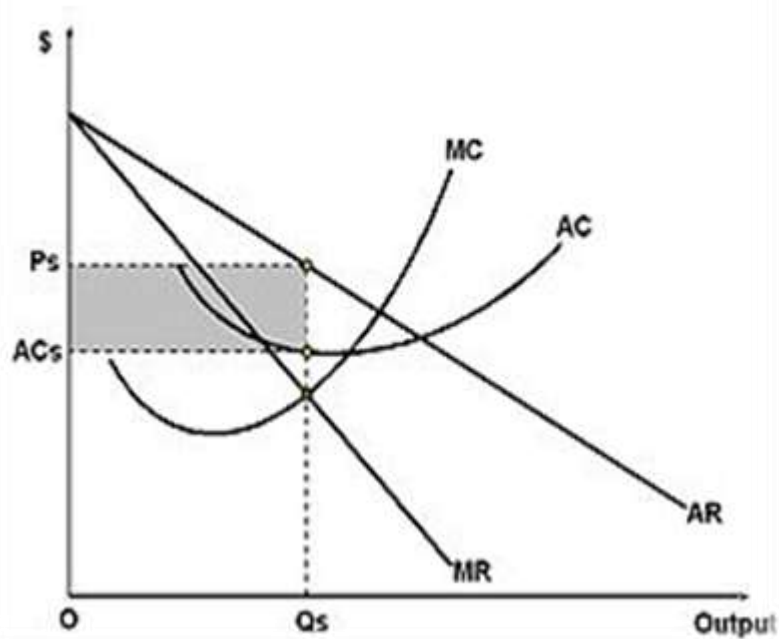
- ❖ A market situation where we find a large number of buyers and sellers .
- ❖ Sell products that are differentiated from one another (e.g. by branding or quality) and hence are not perfect substitutes.
- ❖ A firm takes the prices charged by its rivals as given and ignores the impact of its own prices on the prices of other firms.



Features of Monopolistic Competition

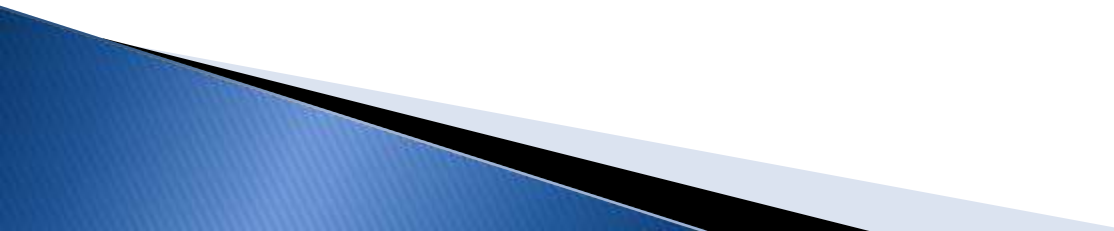
- ❑ Product differentiation
 - ❑ Many firms
 - ❑ No entry and exit cost in the long run
 - ❑ Independent decision making
 - ❑ Some degree of market power
 - ❑ Buyers and Sellers do not have perfect information (incomplete information)
- 

Monopolistic Competition Curves



Downward Sloping Demand Curve

Examples of Monopolistic Competition

- ❑ Some restaurants enjoy monopolistic competition because of their popularity and reputation.
 - ❑ Demand for some specific models of automobiles outstrips the production capacity. This creates situation of monopolistic competition.
 - ❑ Some newspaper in some places enjoy almost monopolistic position in spite of existence of other competitors.
- 

Types of Market



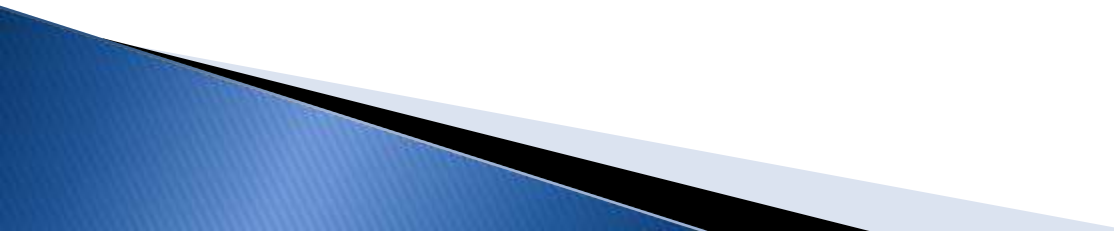
OLIGOPOLY

OLIGOPOLY

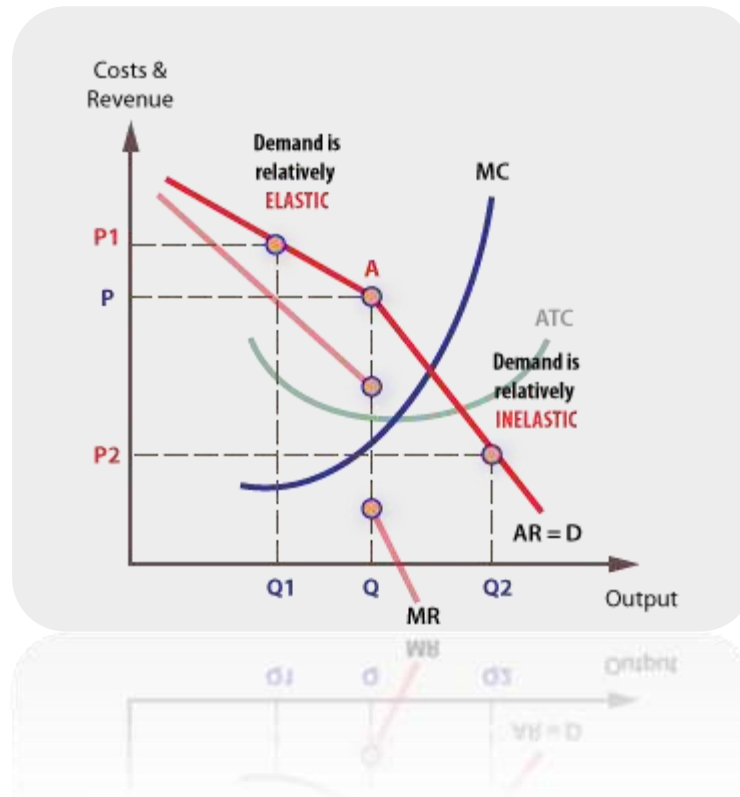
- ❑ A state of limited competition, in which a market is shared by a small number of producers or sellers.
- ❑ There are few firms in the market, producing wither an identical product or differentiated but the close substitutes goods.
- ❑ Oligopoly is derived from the Greek words “oligos” which means a few and “pollen” which means to sell.



Features of Oligopoly

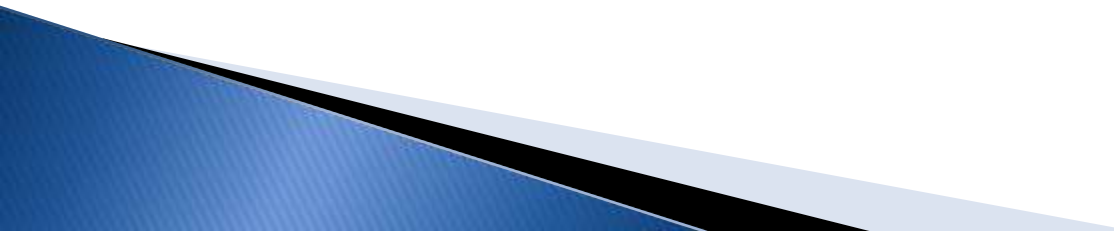
- Profit Maximization conditions
 - Ability to set price
 - Entry and Exit
 - Number of firms
 - Long run profits
 - Product differentiation
 - Perfect Knowledge
 - Interdependence
 - Non-price competition
- 

Oligopoly Curves



Kinked Demand Curve

Examples Of Oligopoly

- ▶ OPEC (Oil and Petroleum exporting countries)
 - ▶ Airlines
 - ▶ Telecom industries.
- 



Types of market



MONOPOLY

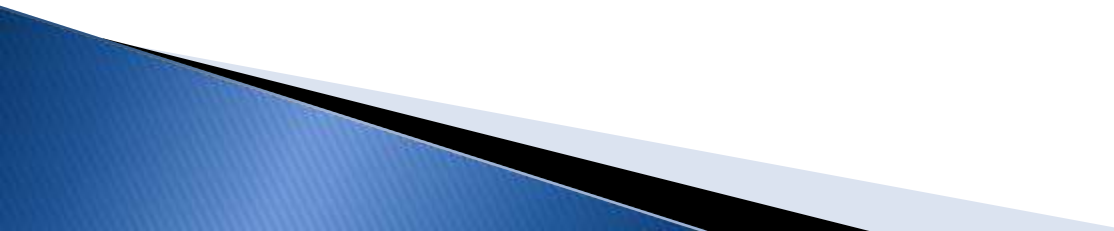
MONOPOLY

- ▶ A market situation where there exists a single seller selling such a good which has no close substitutes.
- ▶ They are the PRICE SETTERS.
- ▶ A single seller exists for a product. i.e. 100% of market share.

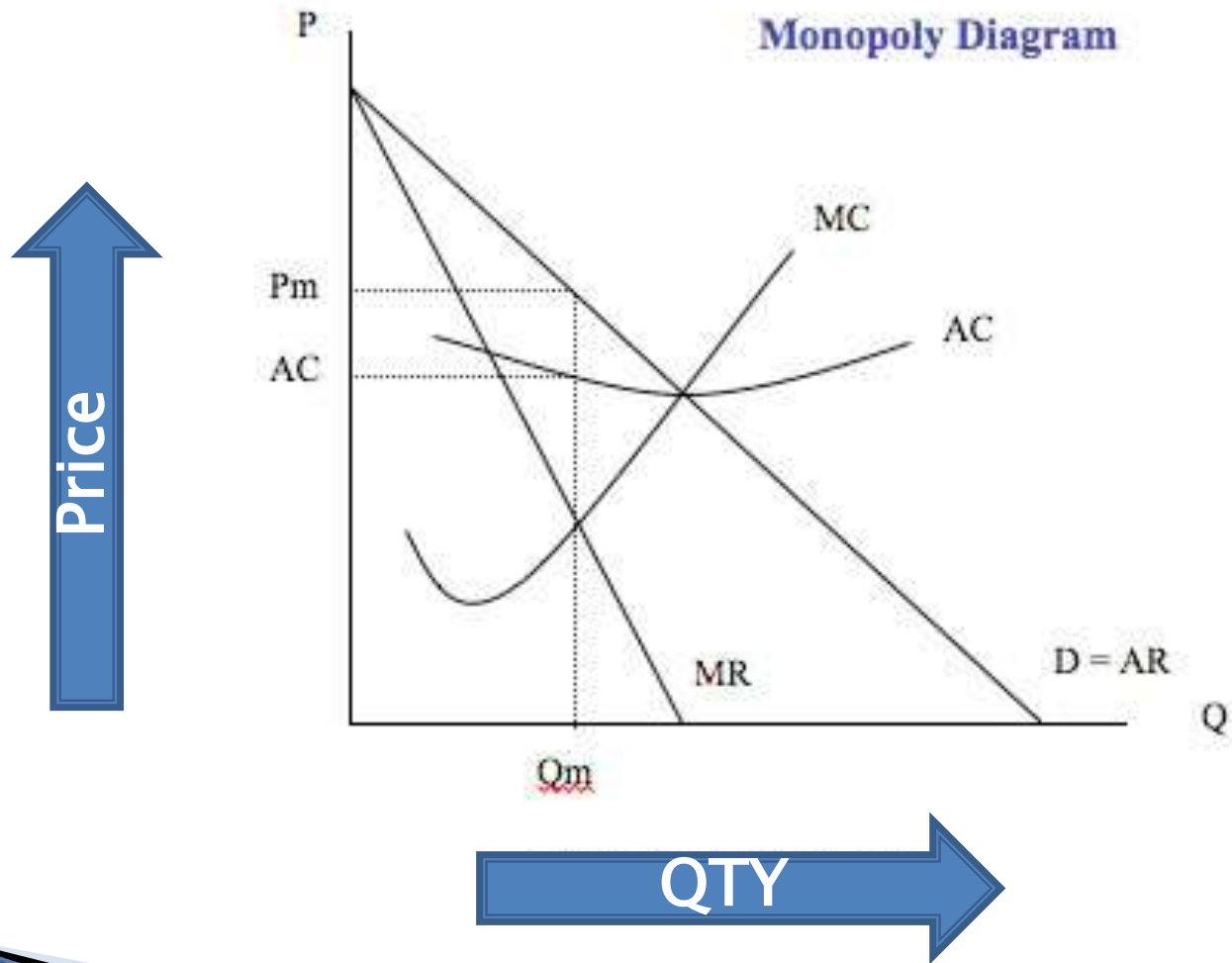


"I Like a Little Competition"—J. P. Morgan

Features of Monopoly

- ❑ Single seller
 - ❑ Large number of buyers
 - ❑ No close substitutes
 - ❑ Price discrimination
 - ❑ No selling costs
 - ❑ Relatively inelastic demand curve
 - ❑ $AR > MR$
 - ❑ AR&MR curves are downward sloping
 - ❑ No free entry and exit of firms
- 

Monopoly Curves



Example of Monopoly Market

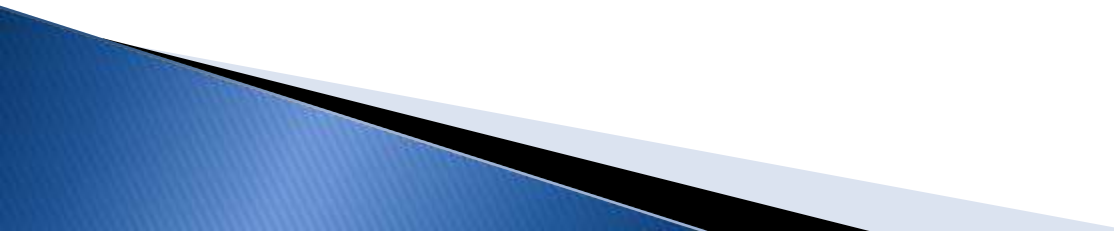


Indian railways



Indian post

Monopoly Watchdog in India – Competition Commission of India(CCI)

- ▶ A body of the Government of India responsible for enforcing The Competition Act, 2002 throughout India.
 - ▶ Established on 14 October 2003; became fully functional in May 2009.
 - ▶ Mr. Ashok Chawla IAS, is the current Chairperson of the CCI.
- 

Important CCI Rulings

- ▶ June 2012 – CCI imposed a fine of 63.07 billion(US\$1.0 billion) on 11 cement companies for cartelization.
- ▶ 8 February 2013 – CCI imposed a penalty of 522 million (US\$8.7 million) on the Board of Control for Cricket in India (BCCI) for misusing its dominant position.
- ▶ 2014 – CCI imposed a fine of Rs. 1 Crore upon Google for failure to comply with the directions given by the Director General(DG)seeking information and documents.
- ▶ August 2014 – CCI imposed a fine of around 2,545 crores on 14 auto companies for indulging in anti-competitive trade agreements.

Comparison & Conclusion

Comparison of Markets

	Number of firms	Market power	Elasticity of demand	Product differentiation	Excess profits	Efficiency	Profit maximization condition	Pricing power
Perfect Competition	Infinite	None	Perfectly elastic	None	No	Yes	$P=MR=MC$	Price taker
Monopolistic competition	Many	Low	Highly elastic (long run)	High	Yes/No (Short/Long)	No	$MR=MC$	Price setter
Monopoly	One	High	Relatively inelastic	Absolute (across industries)	Yes	No	$MR=MC$	Price setter
Oligopoly	Few Firms	Relatively High	Relatively Inelastic	Less	Yes*	*	*	Price setter

THANK YOU

Concept of National Income

National income means the value of goods and [services](#) produced by a country during a [financial year](#). Thus, it is the net result of all economic activities of any country during a period of one year and is valued in terms of [money](#). National income is an uncertain term and is often used interchangeably with the national dividend, national output, and national [expenditure](#). We can understand this concept by understanding the national income definition.

Browse more Topics under National Income

- [Measurement of National Income](#)
- [The concept of Consumption, Saving, and Investment](#)
- Economic Growth
- Economic Fluctuations

Concept of National Income

The National [Income](#) is the total amount of income accruing to a country from [economic activities](#) in a years time. It includes payments made to all resources either in the form of [wages](#), interest, rent, and profits.

The progress of a country can be determined by the [growth](#) of the national income of the country

National Income Definition

There are two National Income Definition

- Traditional Definition
- Modern Definition



Source: freepik.com

Traditional Definition

According to Marshall: “The labor and capital of a country acting on its [natural resources](#) produce annually a certain net aggregate of commodities, [material](#) and immaterial including services of all kinds. This is the true net annual income or revenue of the country or national dividend.”

The definition as laid down by Marshall is being criticized on the following grounds.

Due to the varied category of [goods and services](#), a correct estimation is very difficult.

There is a chance of double counting, hence National Income cannot be estimated correctly.

For example, a product runs in the supply from the producer to distributor to [wholesaler](#) to [retailer](#) and then to the ultimate consumer. If on every movement commodity is taken into consideration then the value of National Income increases.

Also, one other reason is that there are products which are produced but not marketed.

For example, In an [agriculture](#)-oriented country like India, there are commodities which though produced but are kept for self-consumption or exchanged with other commodities. Thus there can be an underestimation of National Income.

Read more about [Income and Expenditure Method here](#) in detail

Simon Kuznets defines national income as “the net output of commodities and services flowing during the year from the country’s productive system in the hands of the ultimate [consumers](#).”

Following are the Modern National Income definition

- GDP
- GNP

Gross Domestic Product

The total value of goods produced and services rendered within a country during a year is its [Gross Domestic Product](#).

Further, GDP is calculated at market price and is defined as GDP at market prices. Different constituents of GDP are:

1. Wages and salaries
2. Rent
3. Interest
4. Undistributed profits
5. Mixed-income
6. Direct taxes
7. Dividend
8. Depreciation

Gross National Product

For [calculation of GNP](#), we need to collect and assess the [data](#) from all productive activities, such as agricultural produce, wood, minerals, commodities, the contributions to production by transport, communications, insurance companies, professions such (as lawyers, doctors, teachers, etc). at market prices.

It also includes net income arising in a country from abroad. Four main constituents of GNP are:

1. Consumer goods and services
2. Gross private domestic income
3. Goods produced or services rendered
4. Income arising from abroad.

GDP and GNP on the basis of Market Price and Factor Cost

a) Market Price

The Actual transacted price including indirect taxes such as GST, Customs duty etc. Such taxes tend to raise the prices of goods and services in the economy.

b) Factor Cost

It Includes the cost of factors of production e.g. interest on capital, wages to labor, rent for land profit to the stakeholders. Thus services provided by service providers and goods sold by the producer is equal to revenue price.

Alternatively,

Revenue Price (or Factor Cost) = Market Price **(net of)** Net Indirect Taxes

Net Indirect Taxes = Indirect Taxes Net of Subsidies received

Hence,

Factor Cost shall be equal to

(Market Price) LESS (Indirect Taxes ADD Subsidies)

Net Domestic Product

The net output of the country's economy during a year is its NDP. During the year a country's capital assets are subject to wear and tear due to its use or can become obsolete.

Hence, we deduct a percentage of such investment from the GDP to arrive at NDP.

So NDP=GDP at factor cost LESS Depreciation.

The Accumulation of all factors of income earned by residents of a country and includes income earned from the county as well as from abroad.

Thus, National Income at Factor Cost shall be equal to

NNP at Market Price LESS (Indirect Taxes ADD Subsidies)

Objectives and Importance of Disinvestment

Definition of Disinvestment

At the very basic level, disinvestment can be explained as follows:

“Investment refers to the conversion of money or cash into securities, debentures, bonds or any other claims on money. As follows, disinvestment involves the conversion of money claims or securities into money or cash.”

Disinvestment can also be defined as the action of an organisation (or government) selling or liquidating an asset or subsidiary. It is also referred to as ‘divestment’ or ‘divestiture.’

In most contexts, disinvestment typically refers to sale from the government, partly or fully, of a government-owned enterprise.

A company or a government organisation will typically disinvest an asset either as a strategic move for the company, or for raising resources to meet general/specific needs.

Objectives of Disinvestment

The new economic policy initiated in July 1991 clearly indicated that PSUs had shown a very negative rate of return on capital employed. Inefficient PSUs had become and were continuing to be a drag on the Government’s resources turning to be more of liabilities to the Government than being assets. Many undertakings traditionally established as pillars of growth had become a burden on the economy. The national gross domestic product and gross national savings were also getting adversely affected by low returns from PSUs. About 10 to 15 % of the total gross domestic savings were getting reduced on account of low savings from PSUs. In relation to the capital employed, the levels of profits were too low. Of the various factors responsible for low profits in the PSUs, the following were identified as particularly important:

- Price policy of public sector undertakings
- Under-utilisation of capacity
- Problems related to planning and construction of projects
- Problems of labour, personnel and management
- Lack of autonomy

Hence, the need for the Government to get rid of these units and to concentrate on core activities was identified. The Government also took a view that it should move out of non-core businesses, especially the ones where the private sector had now entered in a significant way. Finally, disinvestment was also seen by the Government to raise funds for meeting general/specific needs.

In this direction, the Government adopted the 'Disinvestment Policy'. This was identified as an active tool to reduce the burden of financing the PSUs. The following main objectives of disinvestment were outlined:

- To reduce the financial burden on the Government
- To improve public finances
- To introduce, competition and market discipline
- To fund growth
- To encourage wider share of ownership
- To depoliticise non-essential services

Importance of Disinvestment

Presently, the Government has about Rs. 2 lakh crore locked up in PSUs. Disinvestment of the Government stake is, thus, far too significant. The importance of disinvestment lies in utilisation of funds for:

- Financing the increasing fiscal deficit
- Financing large-scale infrastructure development
- For investing in the economy to encourage spending
- For retiring Government debt- Almost 40-45% of the Centre's revenue receipts go towards repaying public debt/interest
- For social programs like health and education

Disinvestment also assumes significance due to the prevalence of an increasingly competitive environment, which makes it difficult for many PSUs to operate profitably. This leads to a rapid erosion of value of the public assets making it critical to disinvest early to realize a high value.