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Editorial

Micro Economics: History and its Microeconomic Models

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DESCRIPTION

Microeconomics is a branch of economics; studies behavior of individuals, firms in making decision regards allocation of scarce resources, interactions among these individuals, firms. One goal of microeconomics is to understand market mechanisms that establish relevant rates on goods, services and allocate limited resources among alternative uses. Microeconomics shows condition under, free markets lead to desirable allocations. It also analyzes market failures, where markets fail to produce efficient results.

While microeconomics attention on firms and individuals, macroeconomics focus on sum total of economic activity, dealing with issues of growth, inflation, and unemployment and with national policies relating to these issues. Microeconomics also deals with effects of economic policies on microeconomic behavior, thus on aforementioned aspects of economy. Particularly in wake of Lucas critique, much of modern macroeconomic theories had built on micro foundations based on basic predictions about micro-level behavior. Economists commonly consider themselves micro economists or macroeconomists. Difference between microeconomics, macroeconomics likely was introduced in 1933 by the Norwegian economist Ragnar Frisch, the co-recipient of the first Nobel Memorial Prize in Economic Sciences. However, Frisch did not actually use word "microeconomics", instead drawing distinctions between "micro-dynamic", "macro-dynamic" analysis in a way similar to how the words "microeconomics" and "macroeconomics" are used now. First use of word "microeconomics" in published paper was from Pieter de Wolff in 1941, which broadened term "micro-dynamics" into "microeconomics".

Models: Supply, demand is an economic model of rate determination in a perfectly competitive market. It conclude in perfectly competitive market with no externalities, per unit taxes, or rate control, unit rate for particular item is price at which quantity demanded by consumers equals quantity supplied by producers. This rate results in stable economic equilibrium. Prices, quantities have described as most directly observable attributes of goods produced, exchanged in a market economy. Theory of supply, demand is an organizing principle for explaining how rates coordinate amounts produced and consumed. In microeconomics, it applies to rate and output determination for a market with perfect competition, which includes condition of no buyers or sellers large enough to have rate-setting power.

For a given market of a commodity, demand is relation of quantity that all buyers would be prepared to buy at each unit rate of good. Demand is often represented by a table or a graph showing price, quantity demanded. Demand theory describes individual consumers as rationally choosing most preferred quantity of each good, given income, prices, tastes, etc. A word for this is "constrained utility maximization" (with income, wealth as constraints on demand). Law of demand states that, in general, rate, quantity demanded in a given market are inversely related. The higher price of a product, less of it people would be prepared to buy. As price of a commodity falls, consumers move toward it from relatively more expensive goods (the substitution effect). In addition, purchasing power from price decline hikes ability to buy. Other factors can change demand; for sample an increase in income will shift demand curve for a normal good outward relative to origin.

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