

Microeconomics

1. Introduction

Microeconomics is a fundamental branch of economics that focuses on the behavior of individual economic agents such as households, firms, and markets. It analyzes how these agents make decisions regarding the allocation of scarce resources and how these decisions determine prices and quantities in specific markets.

As highlighted in Principles of Economics, microeconomics provides the analytical tools needed to understand how markets function and how economic agents respond to incentives.

2. Core Concepts of Microeconomics

♦ Scarcity and Choice

Resources are limited, while human needs are unlimited. This forces individuals and firms to make choices.

♦ Opportunity Cost

The cost of any decision is the value of the next best alternative forgone.

♦ Marginal Analysis

Economic decisions are made by comparing marginal benefits and marginal costs.

3. Consumer Theory

Consumers aim to maximize their utility (satisfaction).

♦ Utility Function

$$U = f(x_1, x_2, \dots, x_n)$$

♦ Budget Constraint

Income limits consumption choices: $\text{Income} = \sum (\text{price} \times \text{quantity})$

♦ Consumer Equilibrium

Occurs when consumers maximize utility given their budget.

4. Demand Theory

♦ Law of Demand

There is an inverse relationship between price and quantity demanded.

♦ Determinants of Demand

Income

Preferences

Prices of related goods

Expectations

5. Firm Theory

Firms aim to maximize profit:

$$\text{Profit} = \text{Revenue} - \text{Cost}$$

♦ Production Function

$$Q = f(L, K)$$

Where:

L = Labor

K = Capital

♦ Costs of Production

Fixed costs

Variable costs

Total costs

6. Market Structures

Microeconomics studies different types of markets:

- ◆ Perfect Competition

Many firms

Homogeneous products

No market power

- ◆ Monopoly

Single producer

High barriers to entry

- ◆ Oligopoly

Few firms dominate the market

- ◆ Monopolistic Competition

Many firms with differentiated products

■ 7. Price Determination

Prices are determined by the interaction of supply and demand.

- ◆ Market Equilibrium

Occurs when: Supply = Demand

■ 8. Market Failures

Markets do not always allocate resources efficiently.

- ◆ Types

Externalities

Public goods

Information asymmetry

■ 9. Applications

Microeconomics is used in:

Pricing strategies

Consumer analysis

Business decision-making

■ 10. Conclusion

Microeconomics provides a detailed understanding of individual decision-making and market interactions. It is essential for analyzing how prices are determined and how resources are allocated efficiently.