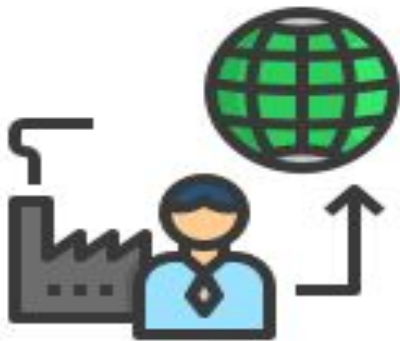
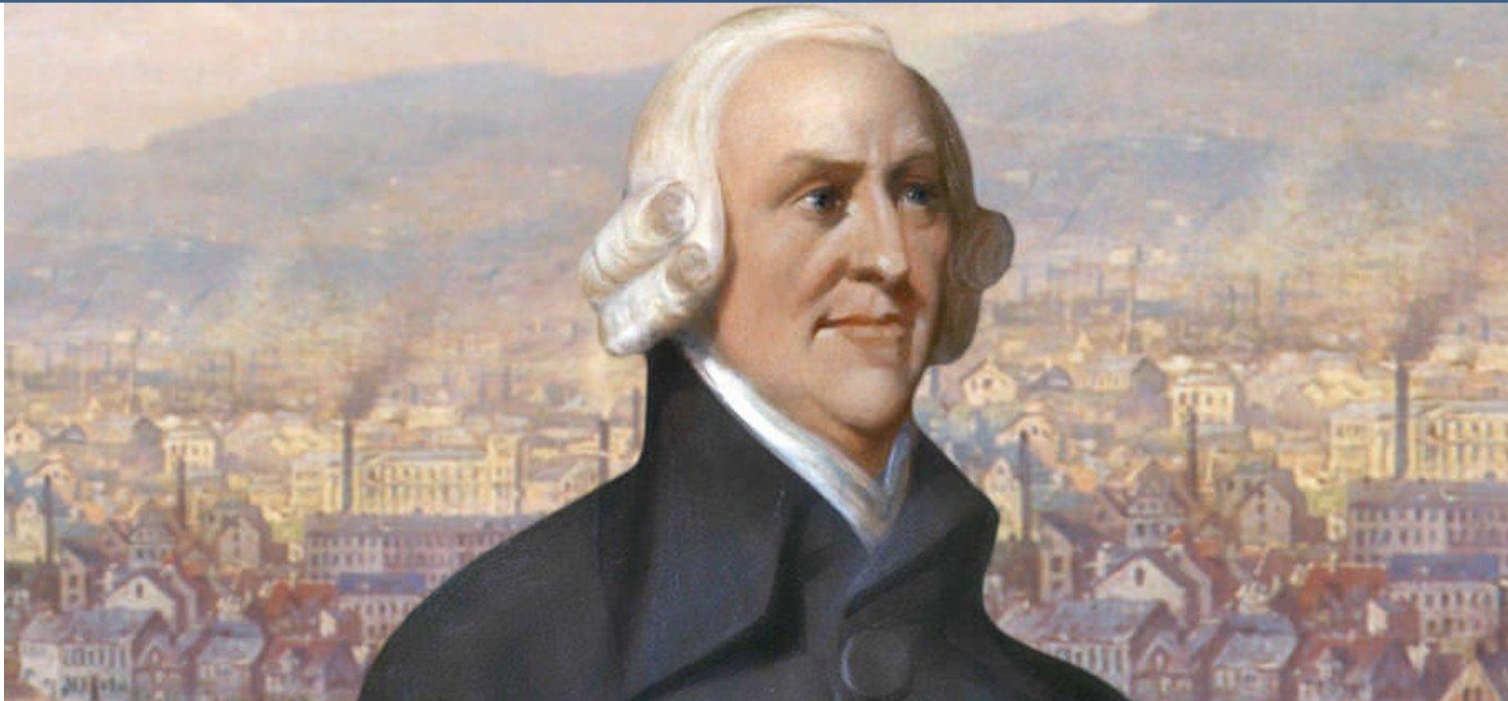


MICRO ECONOMICS INTRODUCTION



ADAM SMITH

He is regarded as the Father of Economics

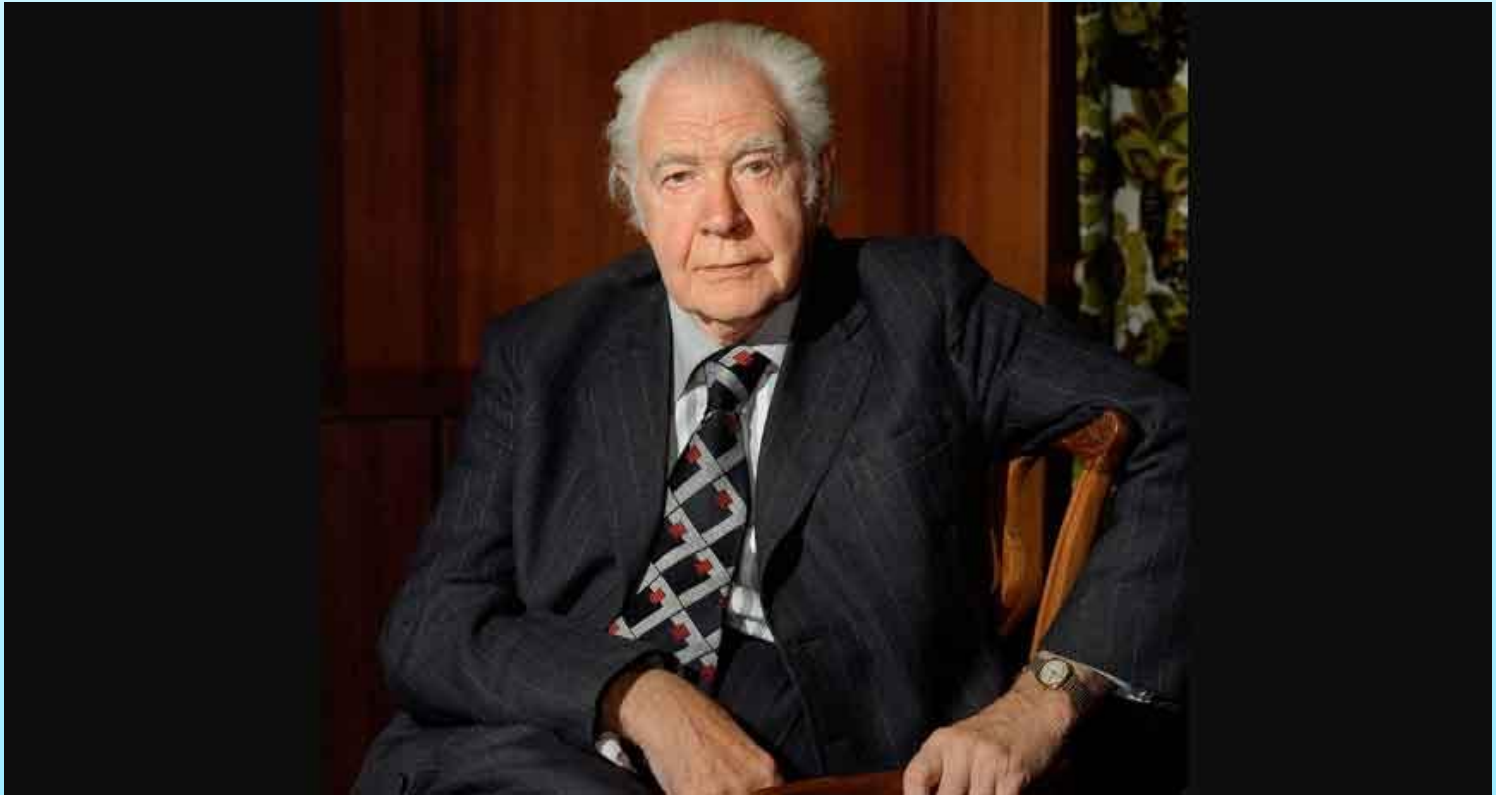


Famous book

An Inquiry in to the Nature and Causes of Wealth of Nations

DEFINITION OF ECONOMICS

- According to Prof. Lionel Robbins, "**Economics** is the science which studies human behaviour as a relationship between ends and scarce **means** which have alternative uses."



BRANCHES OF ECONOMICS:

Microeconomics

Macroeconomics

MICROECONOMICS	MACRO ECONOMICS
The Word Micro originated from the Greek word MIKROS which means Small	The Word Macro originated from the Greek word MAKROS which means Big
It deals with the economic problems related with individual economic units	It studies the economic problems faced by the economy as a whole.
It is also called Price Theory	It is also called Income Theory
Demand and Supply are the tools	Aggregate Demand and Aggregate Supply are the tools
Consumers Behaviour, Producers Behaviour and Study of Markets are covered by Micro economics	National Income, Theory of Employment, Foreign Exchange and Money are covered by Macroeconomics



Positive
Economics

VS

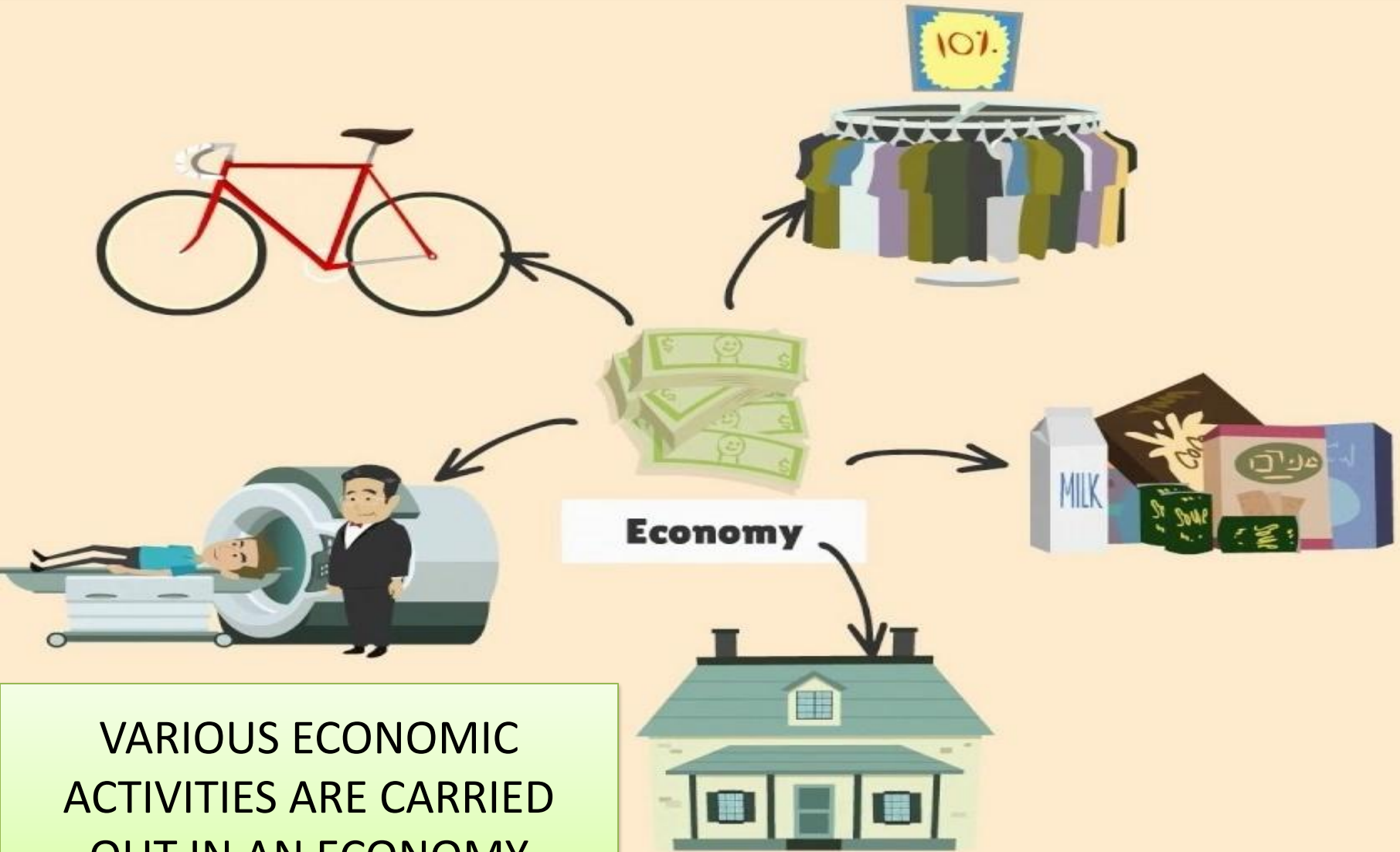


Normative
Economics

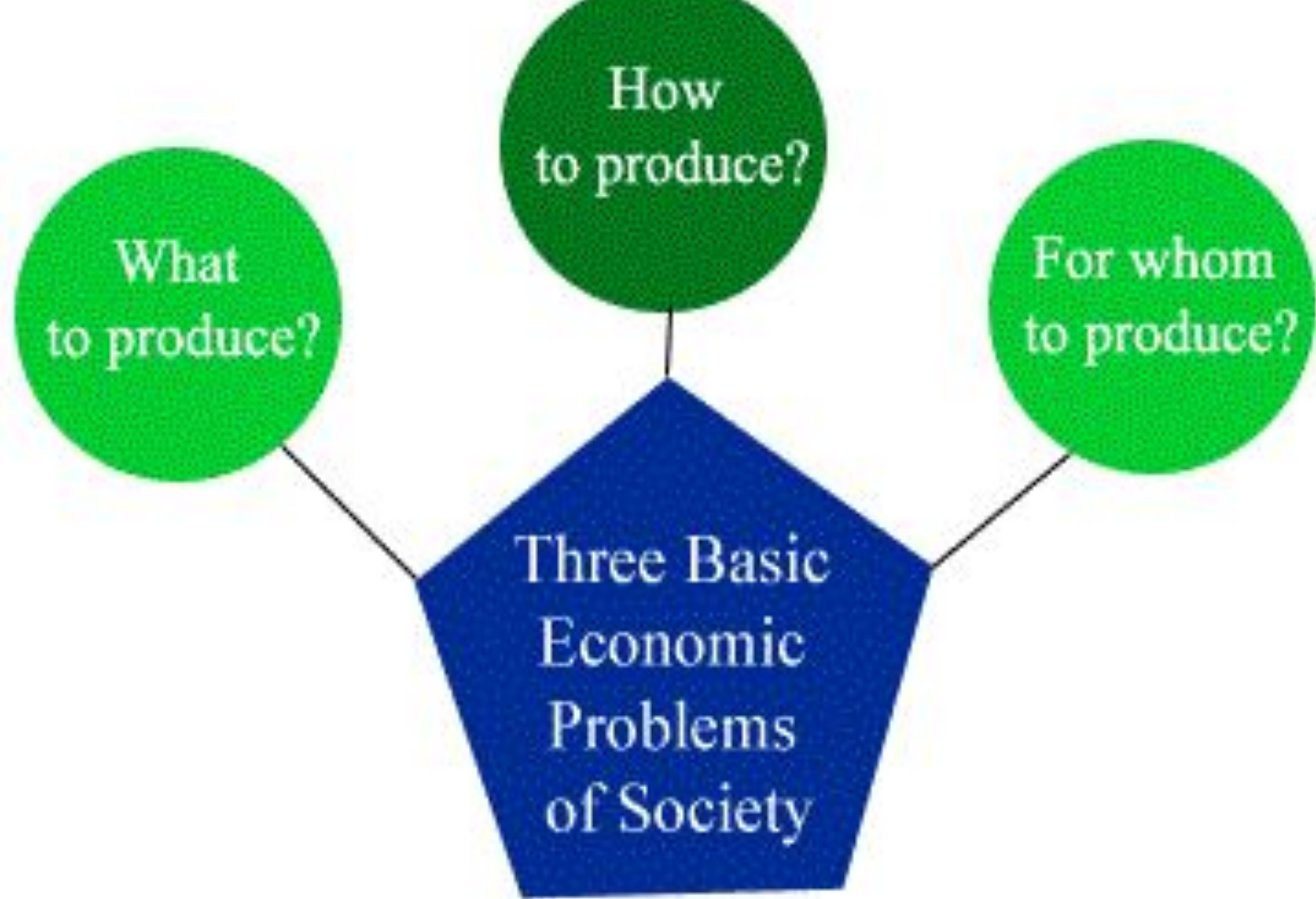
POSITIVE ECONOMICS	NORMATIVE ECONOMICS
It deals with economic problems and how they are actually solved.	It tells how economic problems should be solved.
It does not involve value judgements.	It involves value judgements
It is based on real facts	It is based on individual opinions and ideal things.
It is also called Descriptive Economics	It is also called Policy Economics
Ex: GDP is increasing at the rate of 8% per annum.	Steps should be taken to achieve 9% growth rate in GDP.

ECONOMY

AN ECONOMY IS A SYSTEM THAT PROVIDES A LIVING



VARIOUS ECONOMIC
ACTIVITIES ARE CARRIED
OUT IN AN ECONOMY



CAUSES OF BASIC PROBLEMS

```
graph TD; A[CAUSES OF BASIC PROBLEMS] --> B[Scarce resources]; A --> C[Unlimited wants]; B --> D[Alternative uses]; C --> D;
```

Scarce resources

Unlimited wants

Alternative uses

Central Problems(Basic Problems of an Economy)

(i) What to Produce and in What Quantities:

- As the resources are limited, it is not possible to produce all the goods needed for the people.
- The economy has to decide what goods are to be produced and in what quantities.
- Examples: The economy has to decide whether to produce capital goods or consumer goods.
- It has to decide whether to produce luxury goods or necessary goods.

(ii) How to Produce

- It involves the selection of technology.
- The economy has to decide whether to use labour intensive technology or capital intensive technology.
- Capital Intensive Technology – Using more machines and less labour.
- Labour Intensive Technology – Using more labour and less machines.

For Whom to Produce

- It refers to the distribution of goods and services among the people.
- It also refers to the distribution of income generated among the owners of factors of production (Functional Distribution of Income).

PRODUCTION POSSIBILITY CURVE (PRODUCTION POSSIBILITY FRONTIER)

It is a diagram that shows different combinations of two goods that an economy can produce by using all its resources completely and efficiently.

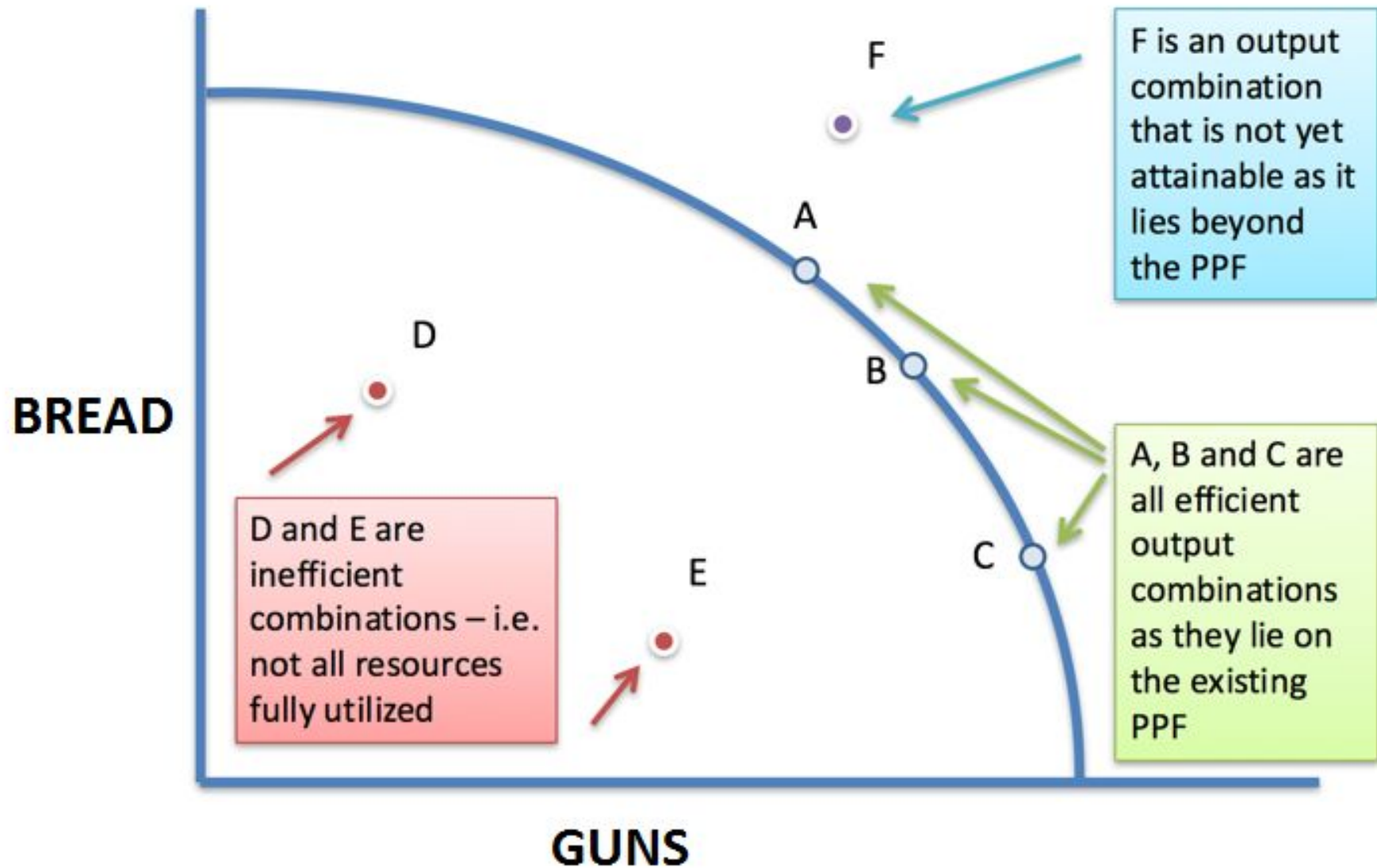
Assumption of PPC

- The economy produces only two goods. For Example: Bread and Guns.
- There is no change in technology.
- Resources available are given and constant.
- Resources are efficiently used.
- Resources are not equally efficient in the production of two goods.

PPC Schedule

PRODUCTION POSSIBILITIES	BREAD	GUNS
A	0	15
B	1	14
C	2	12
D	3	9
E	4	5
F	5	0

Production Possibility Frontier (PPF)



MARGINAL RATE OF TRANSFORMATION

PRODUCTION POSSIBILITIES	BREAD	GUNS	MRT
A	0	15	--
B	1	14	$1/1 = 1$
C	2	12	$2/1 = 2$
D	3	9	$3/1 = 3$
E	4	5	$4/1 = 4$
F	5	0	$5/1 = 5$

MARGINAL RATE OF TRANSFORMATION (MARGINAL OPPORTUNITY COST)

- It is the rate at which one good has to be sacrificed in order to produce a single extra unit of the other good.

- $$\text{MRT} = \frac{\text{Units of a Good Sacrificed}}{\text{More Units of the Other Good Produced}}$$

$$\text{MRT} = \frac{\Delta Y}{\Delta X}$$

ΔY – Fall in the output of a Good

ΔX – Increase in the output of the other Good.

- MRT is the slope of the Opportunity Cost.
- If MRT is constant PPC will be a straight line.
- If MRT is increasing PPC will be concave to origin.
- IF MRT is falling MRT will be convex to origin.
- Normally MRT is rising because resources are not equally efficient in the production of two different goods.

- Giving reason comment on the shape of Production Possibility Curve based on the following schedule.

GOOD X	GOOD Y	MRT
0	30	-----
1	27	$3/1 = 3$
2	21	$6/1 = 6$
3	12	$9/1 = 9$
4	0	$12/1 = 12$

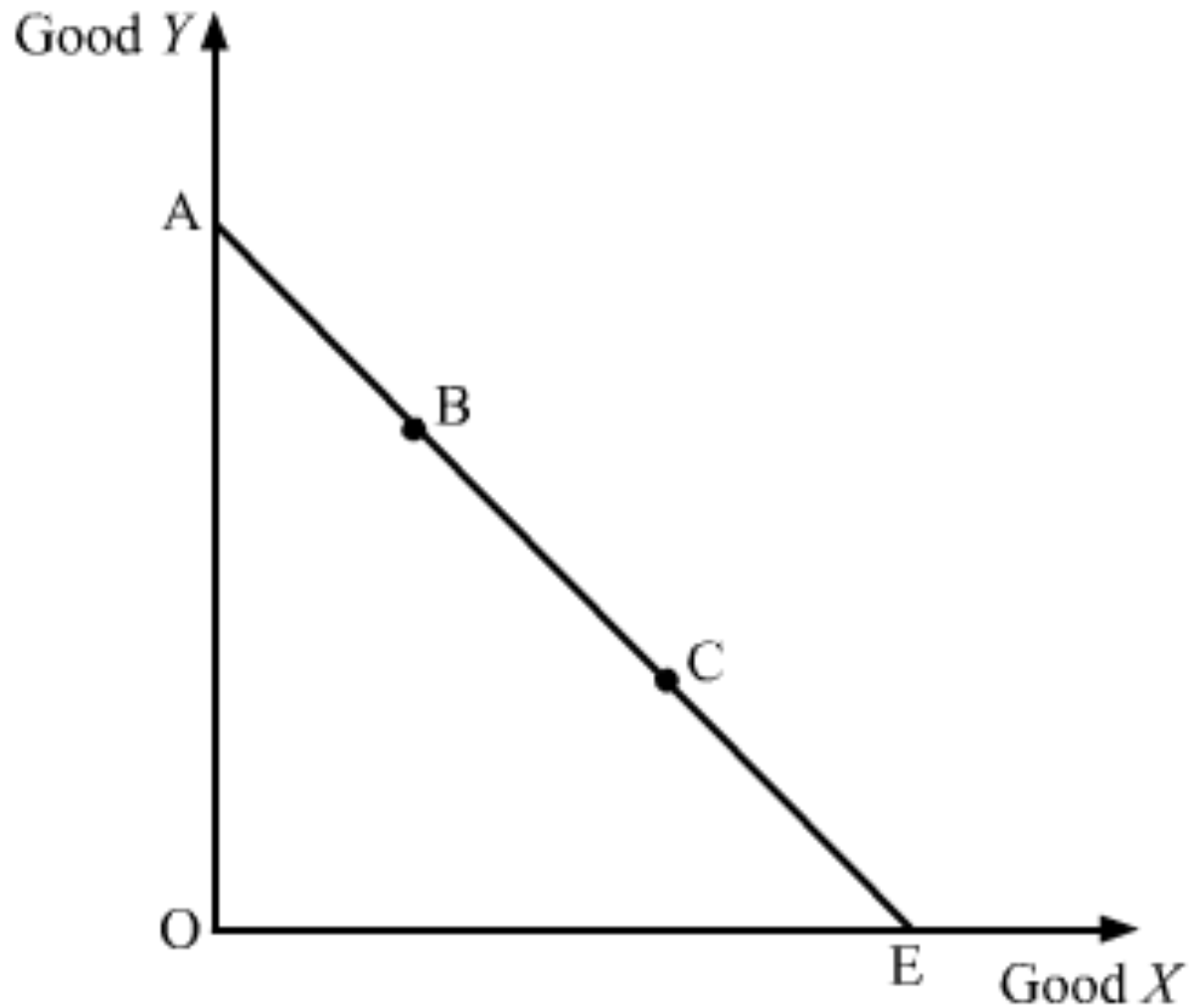
MARGINAL RATE OF TRANSFORMATION INCREASES.
SO, PPC WILL BE CONCAVE TO ORIGIN.

- Giving reason comment on the shape of Production Possibility Curve based on the following schedule.

GOOD X	GOOD Y	MRT
0	4	-----
1	3	$1/1 = 1$
2	2	$1/1 = 1$
3	1	$1/1 = 1$
4	0	$1/1 = 1$

MARGINAL RATE OF TRANSFORMATION IS CONSTANT.
SO, PPC WILL BE A STRAIGHT LINE..

STRAIGHT LINE PPC



Properties(Characteristics of PPC)

- PPC slopes downward from left to right. It indicates that the economy can increase the production of one good only by reducing the production of the other.
- PPC is concave to origin. It is due to the increasing Marginal Rate of Transformation (MRT).
- It is also called Transformation Curve.

SHIFT IN PRODUCTION POSSIBILITY CURVE (PPC)

PPC will shift to the right if the economy's capacity to produce goods and services increases. This can happen due to the following reasons:




- IMPROVEMENT IN TECHNOLOGY



- DISCOVERY OF NEW RESOURCES



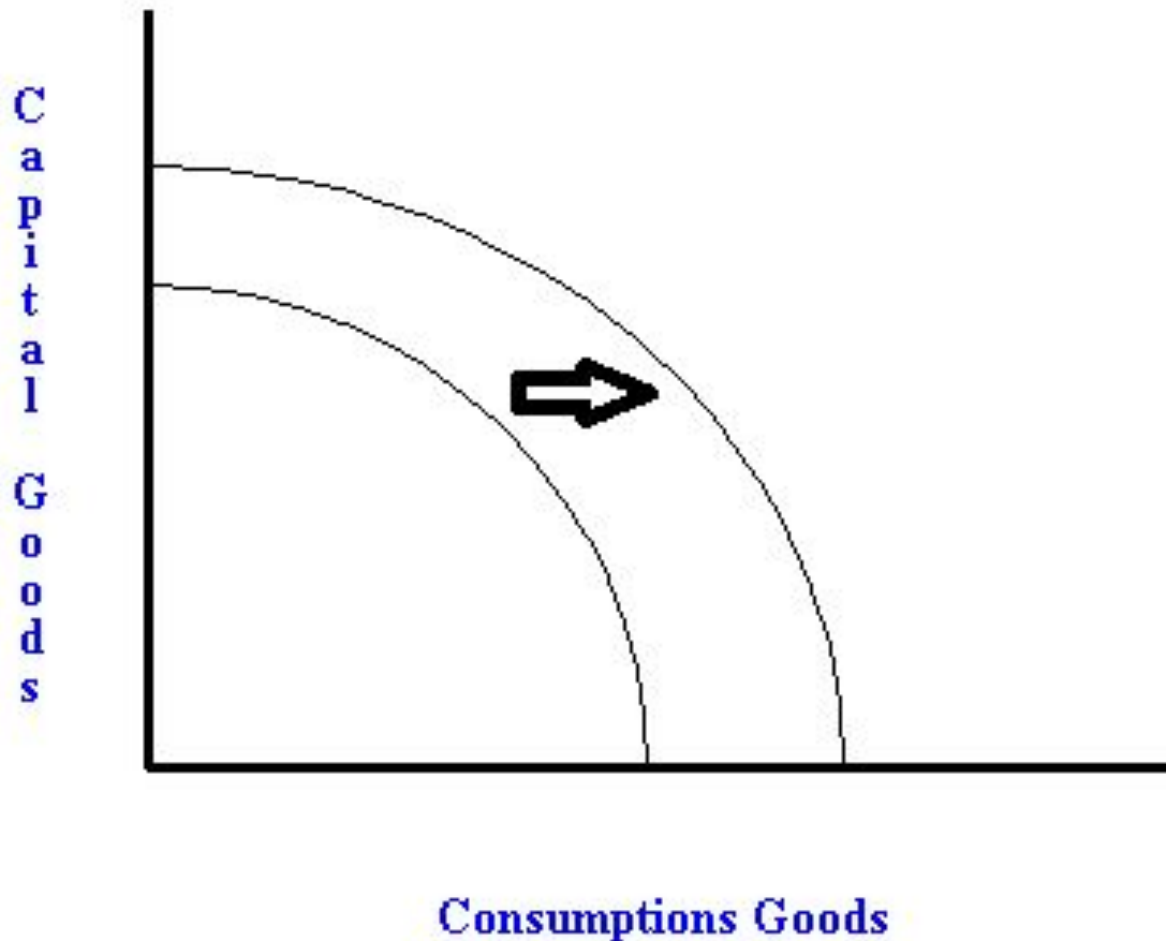
- INCREASE IN POPULATION



- INFLOW OF FOREIGN CAPITAL

RIGHTWARD SHIFT IN PPC

Production Possibilities Frontier



LEFTWARD SHIFT IN PPC

- PPC will shift to the left if the economy's capacity to produce goods and services falls. This can happen due to the following reasons:



DECREASE IN POPULATION

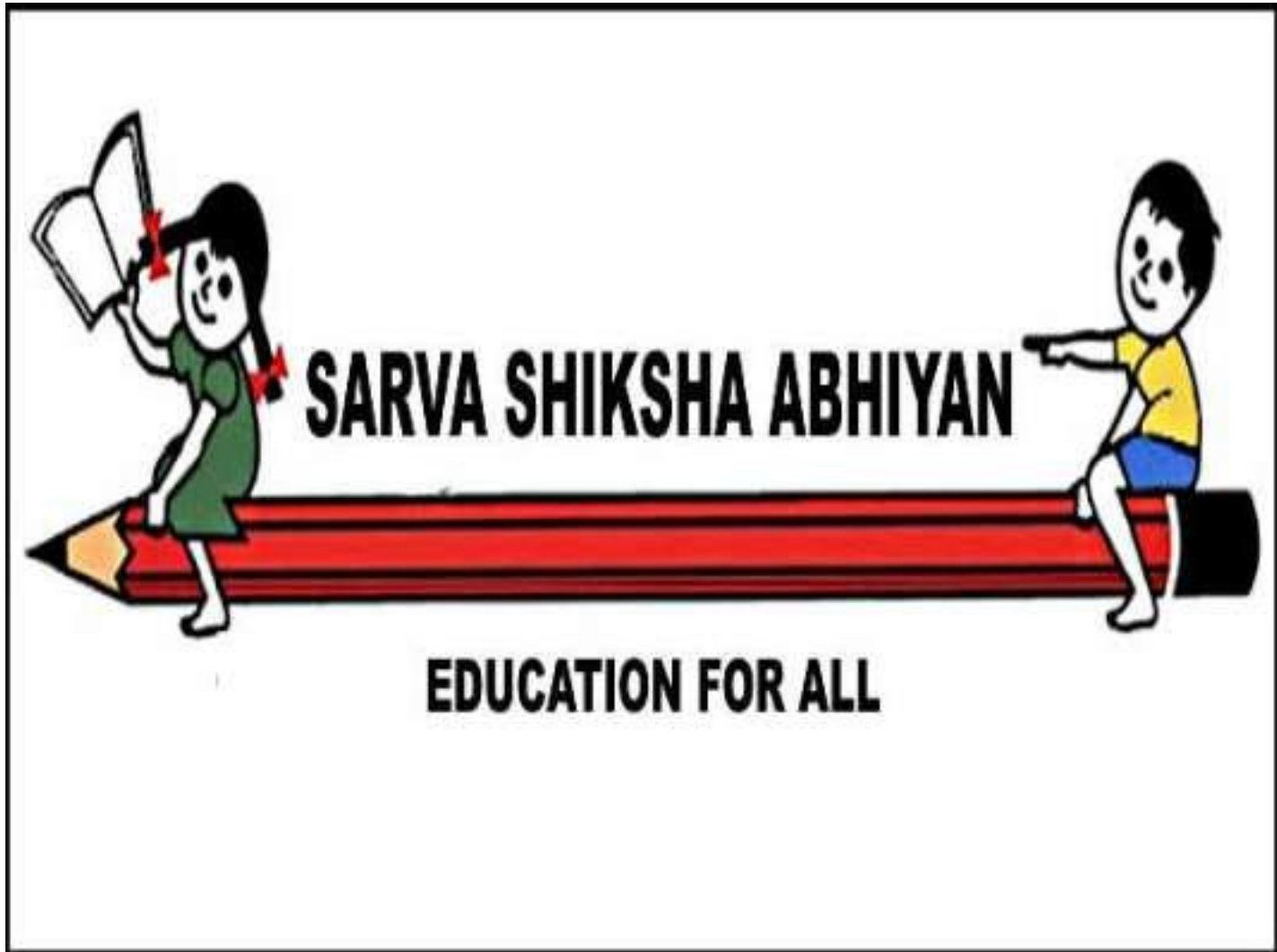


DESTRUCTION OF RESOURCES



OUTFLOW OF CAPITAL

- IMPACT OF SARVA SHIKSHA ABHYAN (OPERATION BLACK BOARD) ON PPC



- Sarva Shiksha Abhyan or Education for All campaign aims at giving free and compulsory education for all children bellow the age of 14.
- Education improves efficiency and skill of people.
- It leads to better utilisation of resources.
- PPC will not shift, instead the economy will drift towards PPC

Product B
(units)

Y axis

1000

900

800

700

600

500

400

300

200

100

0

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300

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X axis

Product A
(units)

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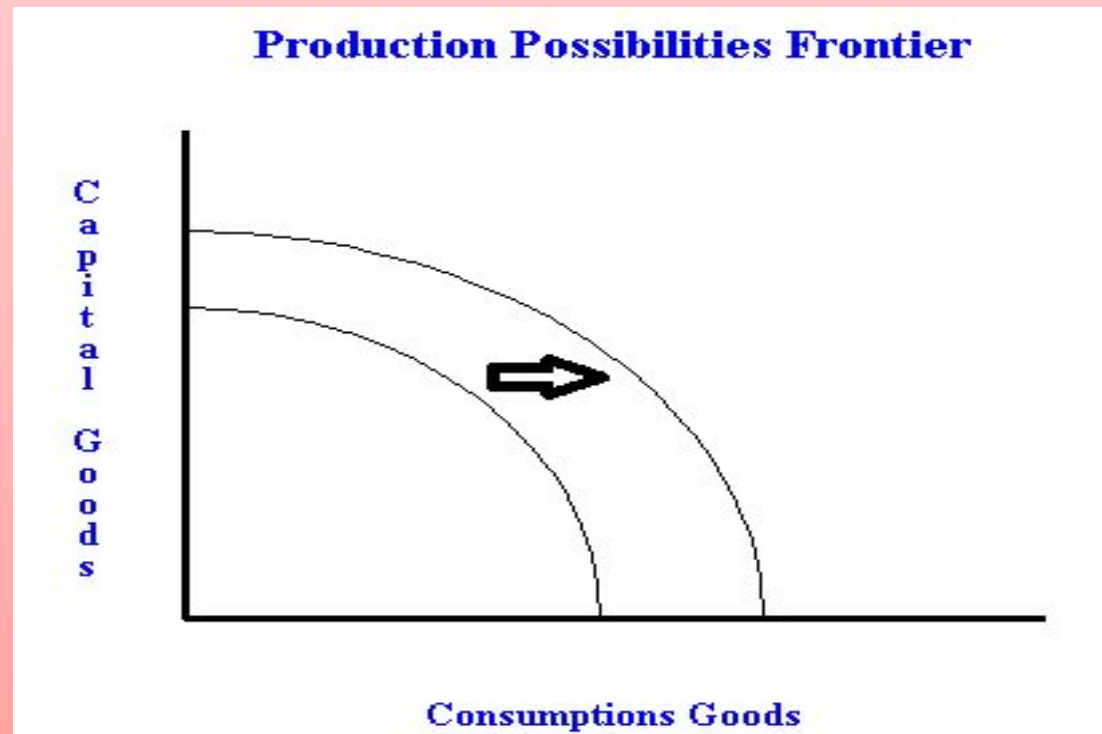
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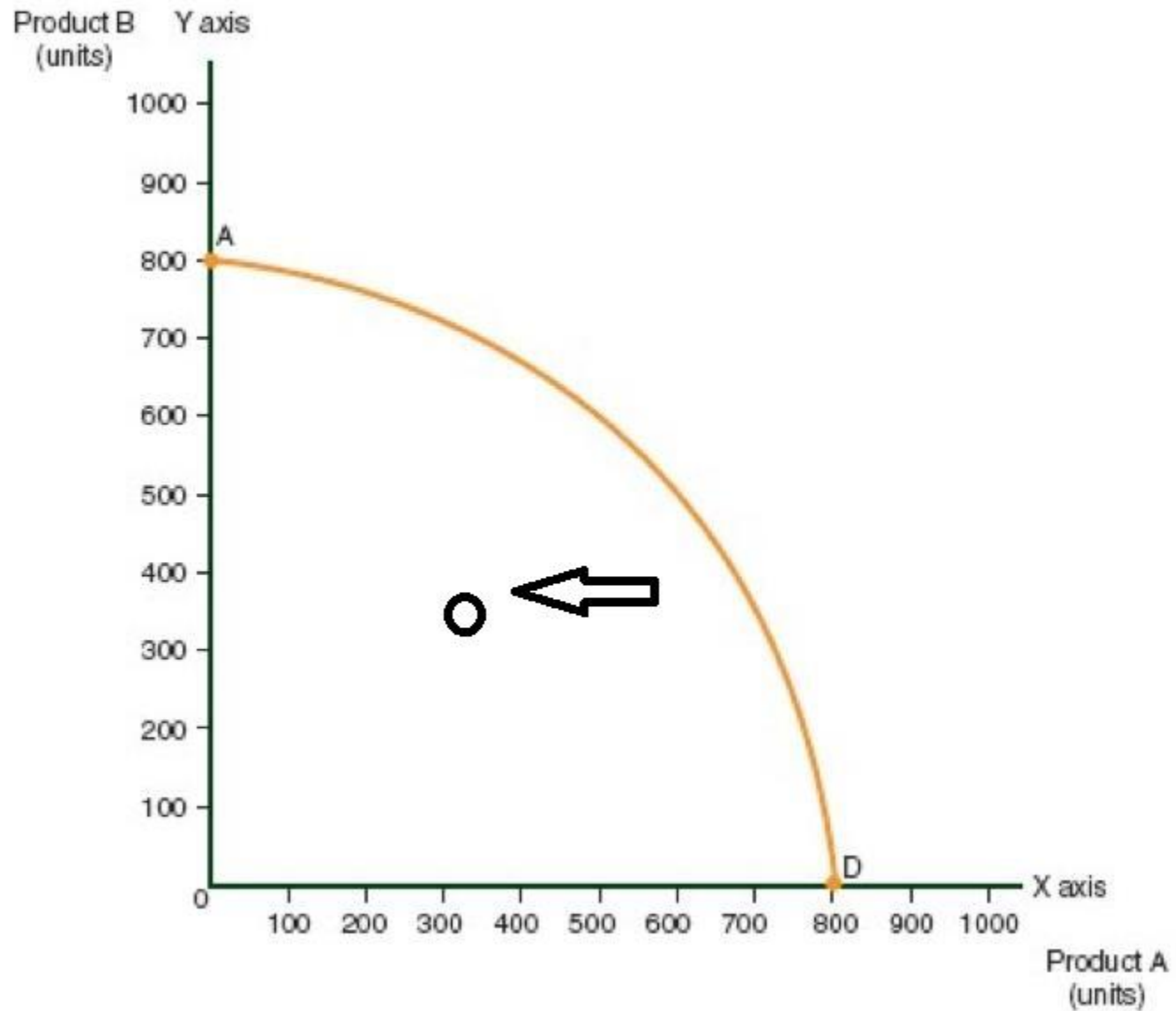
IMPACT OF INFLOW OF FOREIGN CAPITAL (FOREIGN INVESTMENT ON PPC)

Inflow of foreign capital increases the capital stock of the Economy. The economy's capacity to produce goods and services will increase. The PPC will shift to the right.



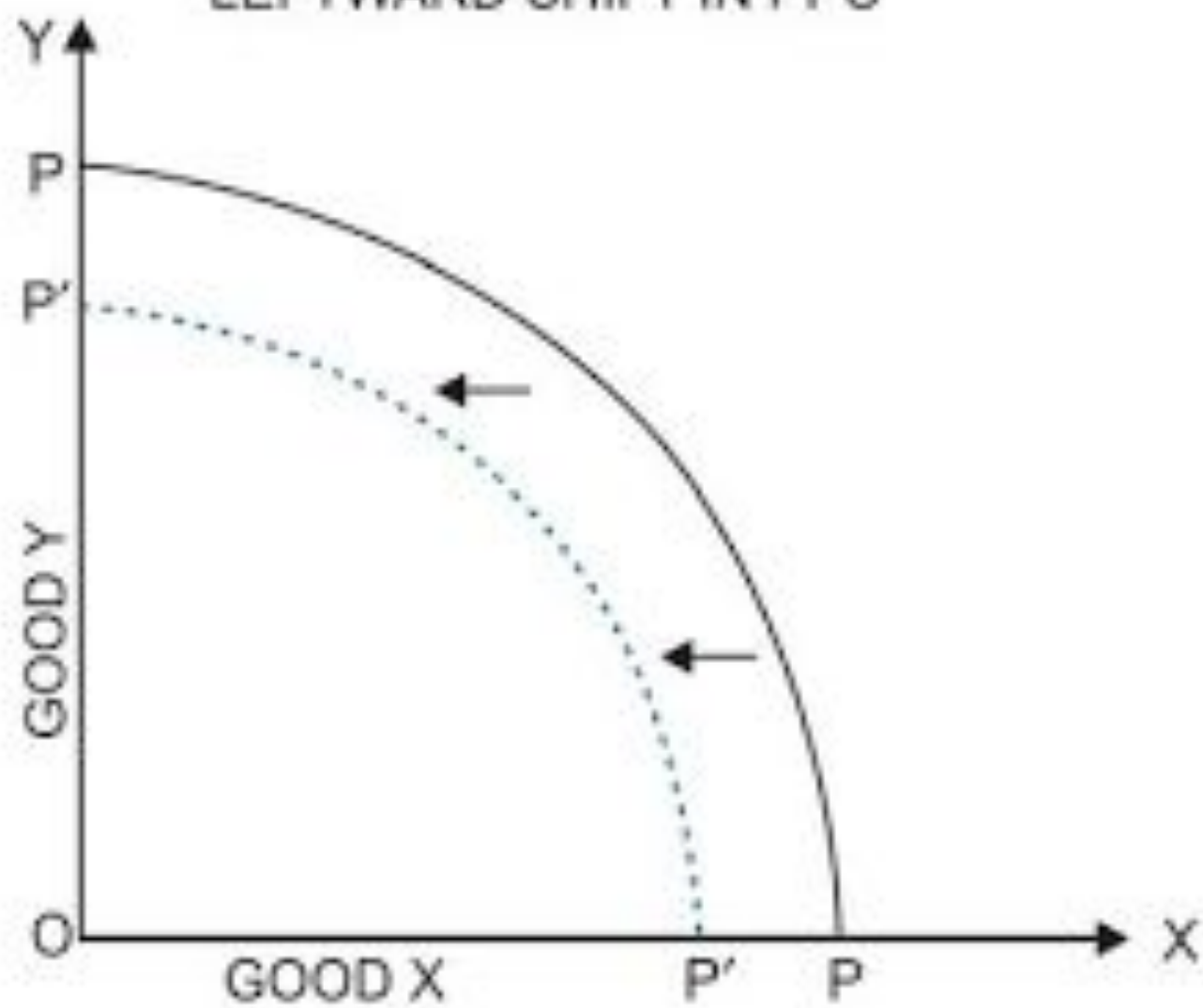
• IMPACT OF THE LOCK DOWN CAUSED BY CORONA ON THE PPC

- The Lock Down prevented the proper utilisation of resources.
- The PPC will not shift.
- The economy will drift away from the PPC
(Leftward)



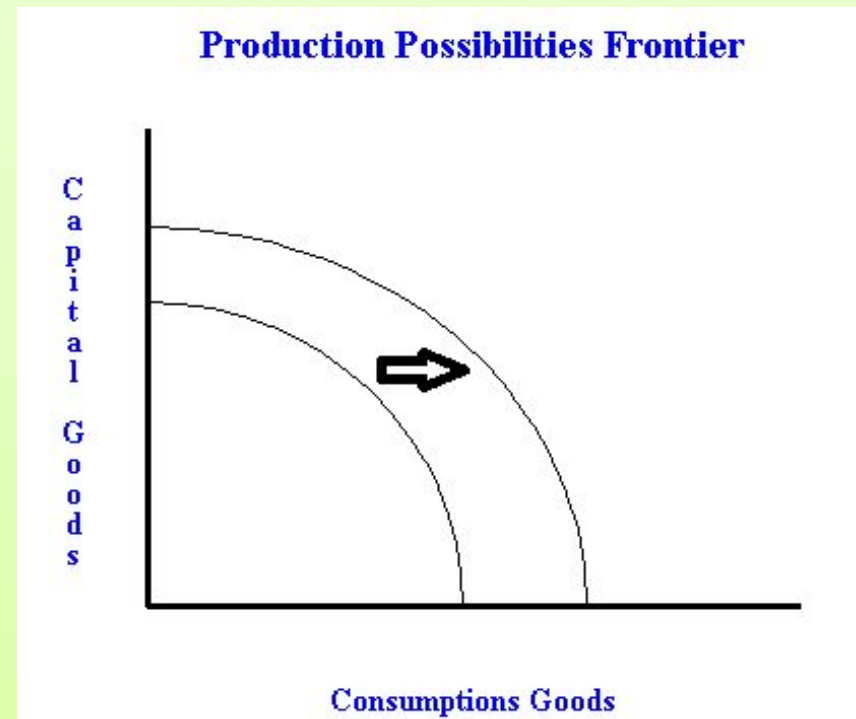
- IMPACT OF FLOODS IN CHENNAI ON PPC
- Natural calamities like floods and earthquakes cause large scale destruction of resources.
- This will reduce economy's capacity to produce goods and services.
- The PPC will shift leftward.

LEFTWARD SHIFT IN PPC



IMPACT OF MAKE IN INDIA POLICY ON THE PPC

- Make in India appeal will lead to increase in foreign investment.
- This will increase India's production capacity.
- Capital stock will increase.
- PPC will shift to right.

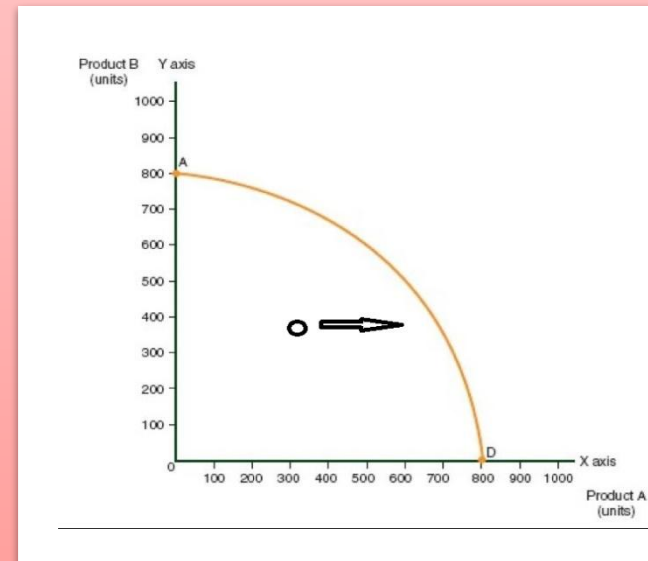


IMPACT OF EMPLOYMENT GENERATION PROGRAMMES ON PPC

Unemployment in the economy shows that the resources are not fully utilised. The economy operates inside PPC.

Efforts to reduce unemployment leads to better utilisation of resources.

The economy will move towards PPC.



- IMPACT OF SWACH BHARAT MISSION(CLEAN INDIA MISSION) ON THE PPC
- Swach Bharat Mission was launched by the Central Government to ensure a clean India.
- It aims at encouraging people to keep their surroundings clean.
- Clean surroundings will reduce the spread of diseases.
- It will lead to better public health.
- Efficiency in work will increase.
- The economy will drift towards PPC

Product B
(units)

Y axis

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X axis

Product A
(units)

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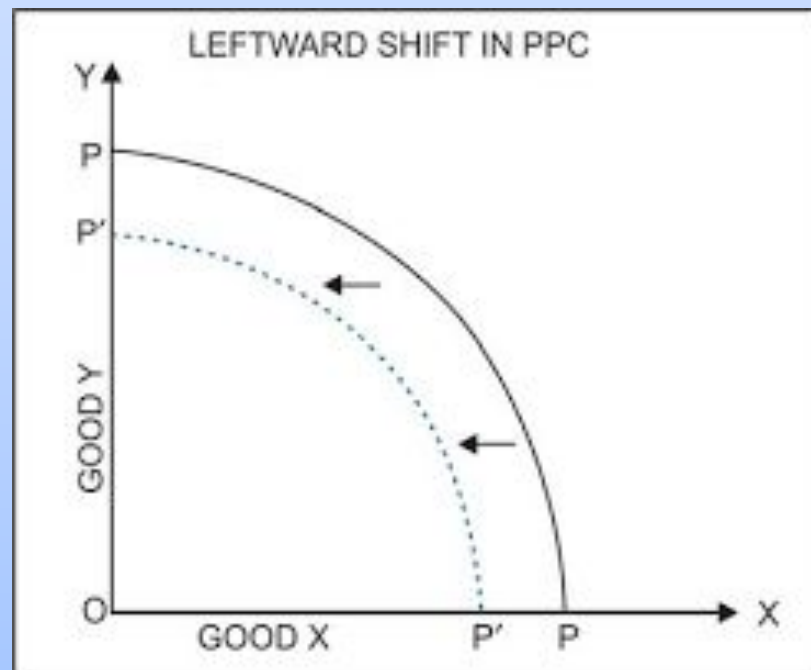
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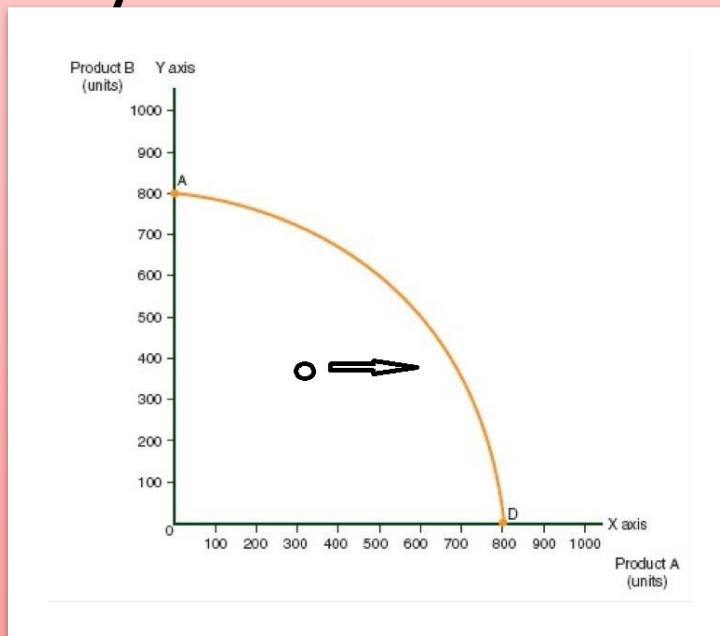
IMPACT OF OUT FLOW OF CAPITAL

- Outflow of capital will reduce the resources of the economy.
- Production capacity will reduce.
- PPC will shift to left.



IMPACT OF THE ESTABLISHMENT OF TECHNICAL TRAINING INSTITUTES AND INSTITUTES OF SCIENCE AND TECHNOLOGY ON THE PPC OF THE ECONOMY

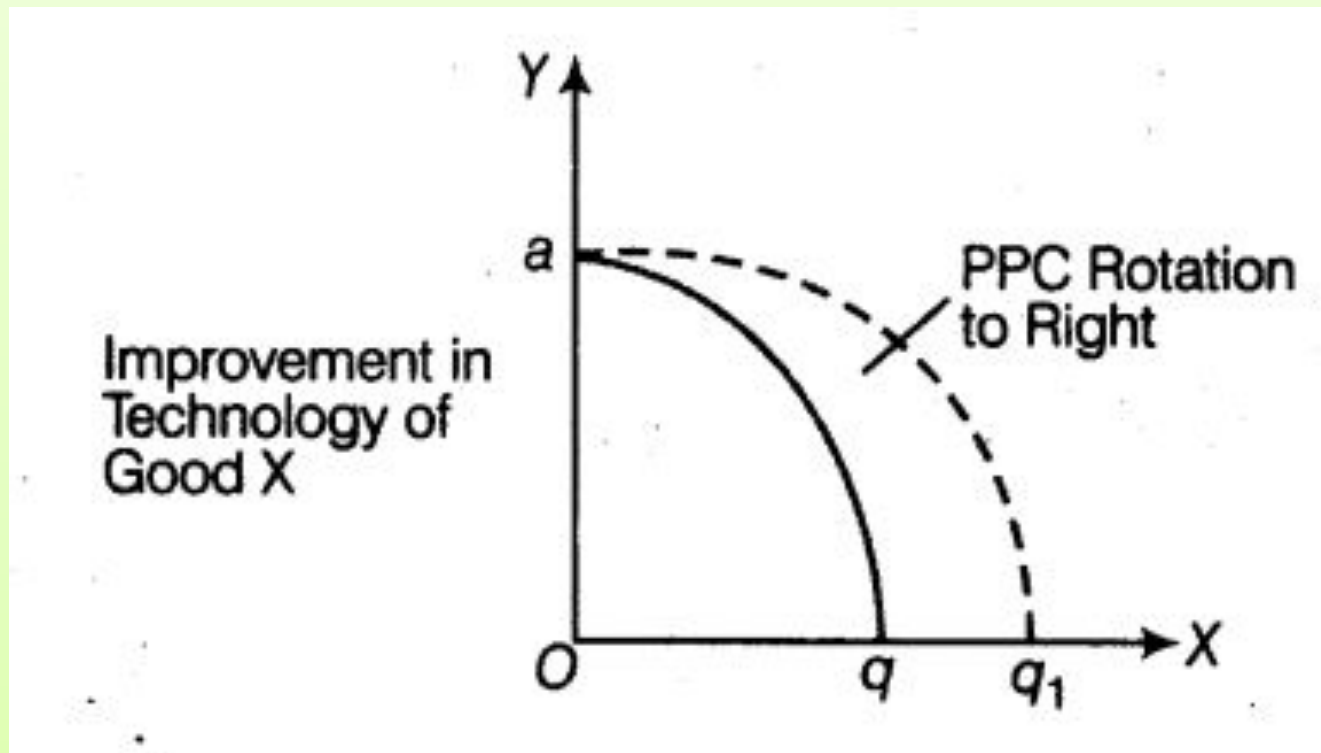
- Technical Training will increase the efficiency of labour.
- This will lead to better utilisation of resources.
- The economy will move towards PPC.



ROTATION OF PRODUCTION POSSIBILITY CURVE

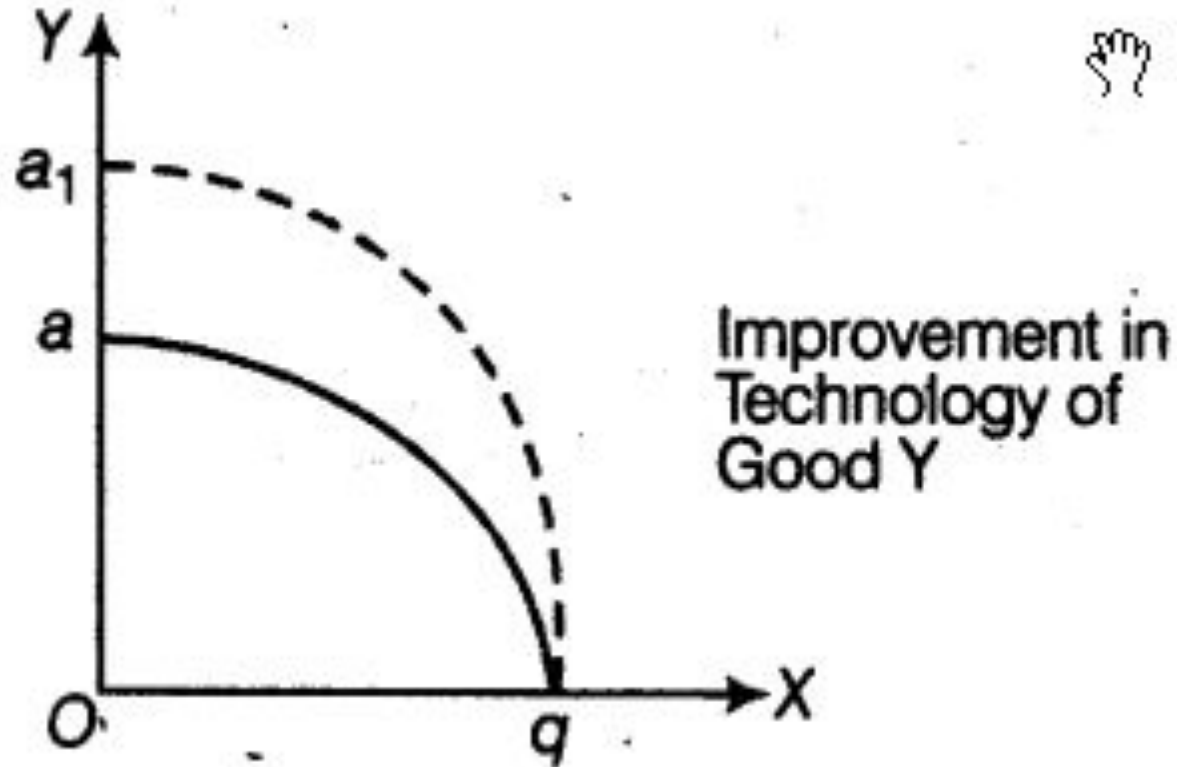
- Rotation of PPC takes place when the technology to produce any one of the two goods increases. The economy's capacity to produce that good will increase.

- A) Development of technology for good X and no change in technology for good Y.



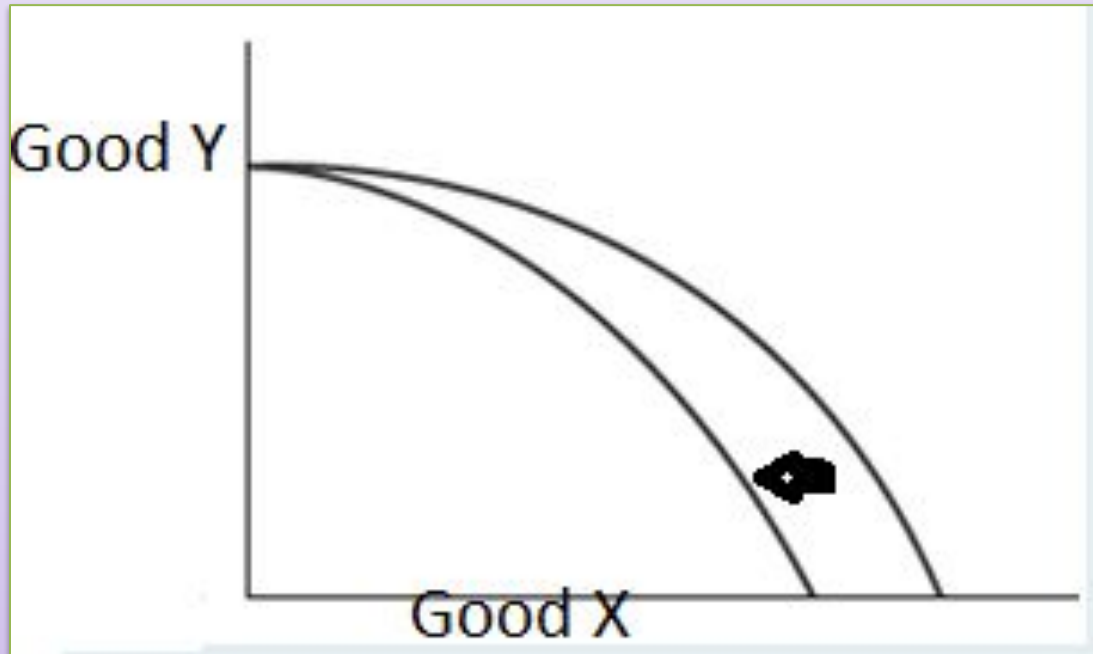
PPC rotates rightward along the X axis.

- B) Development of technology for Good Y



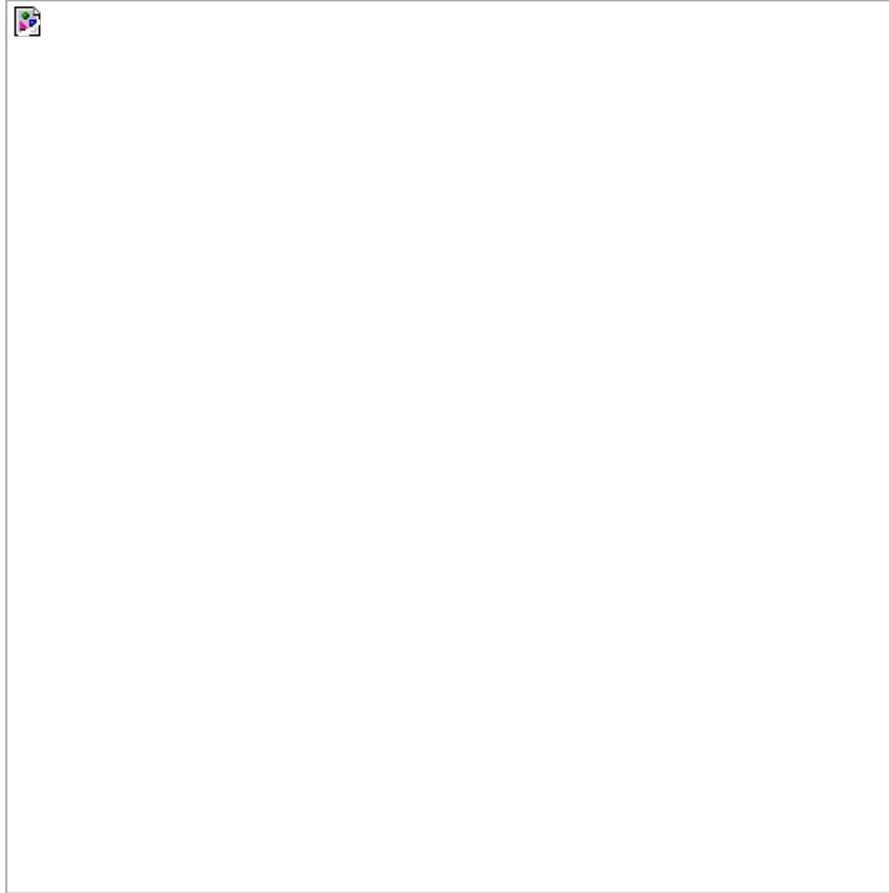
PPC rotates rightward along the Y axis.

- C) The economy's capacity to produce good X falls due to destruction of resources caused by natural calamities.



PPC rotates leftward along the X axis.

- D) The economy's capacity to produce good Y falls due to destruction of resources caused by natural calamities.



- C) The economy's capacity to produce good X falls due to destruction of resources caused by natural calamities.



PPC rotates leftward along the Y axis.

Thank
you