General Economics(Micro)

Hello Guys, I Am Rashmi Ahuja and I have made a revision notes (Summury Notes) for General Economics(Micro), I request you all who read this please give your feedback on my Email ID(rashdahuja@gmail.com)

And if any instruction, any correctness needed or any mistakes that you find in this PDF you can mail me on my Email ID.

Any Mistakes done by me I apologize for that and thank you friends….!!!!!

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Chapter 1

Introduction to Economics

Definitions of Economics

1. **Science of Wealth**
   "Economics is a science which enquires in to the nature and causes of wealth of nations." - ***Adam Smith***
2. **Science of Material Well Being**
   "Economics is a study of mankind in the ordinary business of life. It examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well-being. Thus, it is on the one side a study of wealth and on the other and more important side a part of the study of the man." - ***Alfred Marshall***
3. **Science of Dynamic Growth & Development**
   "Economics is the study of how man and society choose, with or without the use of money, to employ scarce productive resources which could have alternative uses, to produce various commodities over time and distribute them for consumption now and in the future amongst various people and groups of society." – ***Prof. Paul A. Samuelson***
4. **Science of Choice Making**
   "Economics is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses." - Robbins "The range of our inquiry become restricted to that part of social welfare that can be brought directly or indirectly into relation with the measuring rod of money." - ***A. C. Pigon***

Micro and Macro Economics

1.Micro Economics – *"study of economic behavior of an individual, firm or industry in the national economy"*

2.Macro Economics – "*study of overall economic phenomena as a whole rather than its individual parts"*

Central Economic Problem

i.What to Produce?
ii.How to Produce ?
iii.For whom to Produce ?
iv.What provision should be made for Economic Growth ?

How different economies solve their economic problems?

1.Capitalist Economy
2.Socialist Economy
3.The Mixed Economy

Chapter 2

Unit 1:- Law of Demand

What is Demand ?

When the person desiring is willing and able to pay for his desire, the desire is changed into
Demand
Demand refers to the quantity of a good or service that consumers are willing and able to purchase at various prices during a period of time.

1. **Determinants of Demand**
   1. Price of the commodity
   2. Price of related commodities
   3. Level of Income of household
   4. Tastes and preferences of consumers
   5. Other Factors
2. **Demand Schedule:**
   The table showing the data of price and quantity demanded of a commodity.
3. **Market Demand Schedule:**
   When we add up the various quantities demanded by the number of consumers in the market,
   the table we get is called "Market Demand Schedule
   Demand Curve: *The curve obtained by plotting demand schedule on a graph paper*
4. **Rationale for the law of demand**

i) *Substitution Effect*
ii) *Income Effect*
Increase in no. of consumers

5. **Exception to for the law of demand**

i) *Conspicuous Goods*
ii) *Giffen Goods*
iii) *Conspicuous Necessities*
iii) *Future expectations about prices*
iv) *Irrational Consumers*
iv) *Changes in one of the determinants of demand*

Elasticity of Demand

What is **Elasticity of Demand** ?

It is the responsiveness of the quantity demanded of a good to changes in one of the variables on which demand depends.

These variables are: Price of the commodity, Price of the related commodities, Income of
the consumers & Various other factors

1 . **Price Elasticity:** It expresses the response of quantity demanded of a good to a change in its price, given
the other determinants being same

2 . **Income Elasticity:** *It expresses the response of quantity demanded of a good to a change in*
income of theconsumer

3 . **Cross Elasticity:** *It expresses the response of quantity demanded of a good to a change in price of another good*

Geometrical Method

Point Elasticity*:* This method tells us how to measure elasticity of demand at any point on a demand curve.

Arc Elasticity*:* When price elasticity is to befound between the two prices, the concept of arc elasticity is used

Interpretation of values of elasticity of demand

The numerical value of elasticity of demand can assume any value from 0 to infinity

Numerical Value of elasticity Verbal Description Terminology

0 = Quantity demanded does not change with price Perfectly inelastic

Greater than= 0
but less than= 1

Quantity demanded changes by a smaller percentage than does price Inelastic

1 = Quantity demanded changes by a exactly the same percentage as price Unit Elasticity
Greater than 1 but less than infinity
Quantity demanded

1. changes by a larger percentage than price:**Elastic**

Infinity Buyers purchase all at some price and none at slightly higher price:**Perfectly elastic**

Total outlay method of calculating price elasticity
According to this method, we compare the total outlay of the purchaser before and after the variation in price
Unity or Unitary elasticity
Greater than Unity
Less than Unity

Chapter 2
Unit 3 – Law of Supply

Meaning of Supply
It refers to the amount of a good or service that the producers are willing and able to offer to the market at various prices during a period of time.

Determinants of Supply

1. Price of the good
2. Price of related goods
3. Price of the factors of Production
4. State of Technology
5. Government Policy

Law of Supply
This law expresses the relationship of quantity supplied of a good with one or more related variables. It states that, “other things remaining the same, as the price of a commodity rises its supply is extended and vice – versa”.
Elasticity of Supply
It is the responsiveness of the quantity supplied of a good to a change in its price.
It is given by the formula:
% change in quantity supplied x 100
% change in price

Shifts in the supply curve
Increase in Supply - When the supply curve wholly shifts towards right as a result of change in one of the determinants of supply
Decrease in Supply - When the supply curve wholly shifts towards left as a result of change in one of the determinants of supply
Movements on the supply curve
When supply of a good increases as a result of an increase in its price, there is an increase in quantity supplied.

When supply of a good decreases as a result of a decrease in its price, there is a decrease in quantity supplied

Types of Supply Elasticity:-

a. Perfectly Inelastic Supply
b. Relatively less – elastic Supply
c. Relatively greater – elastic Supply
d. Unit elasticity

e. Perfectly elastic Supply

Chapter 3

Unit 1

Theory of Production

Factors of Production

Productive resources required to produce a product are called factors of production.

1. **Land** :- The term 'Land' in economics not only means soil but refers to all free gifts of nature which would include water, air, natural vegetation, etc.

Characteristics of Land:

(i) Free gift of nature,
(ii) Limited in quantity,
(iii) Original and indestructible.
(iv) Immobile,
(v) Does not yield any result unless human efforts are employed.

2. Labour: - Any work, whether manual or mental, undertaken for a monetary consideration is called 'labour..'

Characteristics of Labour :

i) Inseparable from the labourer,
ii) Highly perishable,
iii) Weak bargaining power,
iv) Labour power differs from labourer to labourer.

3. Capital :- It refers to that part of a man's wealth which is used in producing further wealth or which yields an income .

Capital Formation - It means the increase in the stock of real capital in a country .

Stages of Capital formation :-

i) Savings,
ii) Mobilisation of savings ,
iii) Investment

4. Entrepreneur :- Entrepreneur is that factor of production who initiates the process of production, and bears the risk involved in it.

Functions of an entrepreneur :-

(i) Initiating a business enterprise and resource co-ordination.
(ii) Risk bearing
iii) Innovations.

What is Production?

Production is defined as the creation or addition of utility.

Utility is created or added in the following forms -

1. **Form Utility: -** By changing the form of natural resources.
2. **Place Utility: -** By transporting the goods from the place of production to the place of consumption.
3. **Time Utility: -** By making goods available at the time when they are needed.

4. **Personal Utility:** - By making use of personal skills in the form of services.

Production Function

Law of Variable Proportions

It refers to input - output relationship, when the output is increased by varying the quantity of one input. This law operates in the short run.

The law states that an increase in some inputs relative to other fixed inputs will, in a given state of technology, cause output to increase, but after a point the extra output resulting from the same addition of extra inputs will become less and less.

Assumptions of this law:-

(i) State of technology is given and constant.
(ii) Quantity of some inputs is fixed.
(iii) Factors of production should be used in variable proportions.
(iv) Only physical inputs & outputs are considered.

There are 3 stages of this law -

Stage-1 Law of Increasing Returns - In this stage, the total product increases at an increasing rate but upto a certain point.

Stage-2 Law of Diminishing Returns - In this stage, the total product continuous to increase but at a diminishing rate until it reaches its maximum point, where this stage ends.

Stage-3 Law of Negative Returns - In this stage, the total product declines, marginal product is negative & average product is diminishing. The stage is called so because the marginal product of the variable factor is negative during this stage.

Production Function :-

Production function states the relationship between input and output i.e. the maximum amount of output that can be produced with given quantities of inputs under a given state of technical knowledge.

Important Terms:-

(i) **Short Run: -** Short run is that period of time which is too short for a firm to install a new capital equipment to increase production.

(i) **Long Run: -** Long run is that period of time in which all the factors production are variable.

(ii) **Total Product:-** The total output resulting from the efforts of all the factors of production combined together at any time.

(iii) **Average Product:-** The total product per unit of the variable factor.

(iv) **Marginal Product** :- It is the change in total product per unit change in the quantity of variable factor.

Chapter 3
Unit 2
Cost Analysis

In production analysis, physical aspects of production relations are considered. But financial aspects of production relations are considered in cost analysis.

Different Cost Concepts

1. **Accounting Cost and Economic Cost**
2. **Outlay Costs and Opportunity Costs**
3 **Direct and Indirect Costs**
4 **Fixed and Variable Costs**

5 **Cost Function**

It refers to the mathematical relation between cost of a product and the determinants of cost.

Short Run Total Cost

Total Cost of a business = Total Fixed Cost + Total Variable Cost

OR

TC = TFC + TVC

Short Run Average Cost

i) **Average Fixed Cost (AFC)**

It is the total fixed cost divided by the number of units of output produced.

ii) Average Variable Cost (AVC)

It is the total variable cost divided by the number of units of output produced.

iii) Average Total Cost (ATC)

It is the sum of average variable cost and average fixed cost.

i.e. ATC = AFC + AVC

It is the total costs divided by the number of units produced.

iv) Marginal Cost (MC)

It is the addition made to the total cost by producing an additional unit of output. This cost is independent of fixed cost because fixed cost does not change with output.

Chapter 4
Unit 1
Meaning and Types of Market

Meaning of Market

Market refers to a place where there are a number of buyers and sellers to influence the price of any product.

Elements of Market

(i) Buyers and sellers.
(ii) A product or service.
(iii) Bargaining for a price.
(iv) Knowledge about market condition.
One price for a product or service at a given time.

Types of Market

1. Perfect Competition - A market where there are a large number of sellers selling identical products to many buyers.

2. Monopolistic Condition - A market where there are many sellers offering differentiated product to many buyers.

3. Monopoly - A market where there is a single seller and many buyers. There is not a single competitor for such seller so he can charge any price for his product.

4. Oligopoly - A market where there are a few sellers selling competing products to many buyers.

Some Important Concepts:-

1. **Total Revenue** - It refers to the amount of money which a firm realises by selling certain units of a commodity. TR = P x Q

   Average Revenue - It refers the revenue earned per unit of output.
2. **Marginal Revenue -** It refers to the change in total revenue resulting from the sale of an additional unit of the commodity.

Relationship of MR, AR,TR, and elasticity of Demand :-

Therefore, if e =1, MR will be 0

if e >1, MR will be positive

if e <1, MR will be negative

1. A firm **should not produce** at all **if total revenue from its product does not equal or exceed its total cost**.
2. It will be **profitable** for the firm to **expand output** whenever **marginal revenue is greater than marginal cost**, and to **keep on expanding** output **until marginal revenue equals marginal cost.**

Unit 2

Determination of Prices

Meaning of Prices

Prices of goods express their exchange value. These are also used for expressing the value of various services rendered by different factors of production.
Thus, Equilibrium Price and Quantity will be at the point at which demand and supply curve intersects.

Changes in Demand and Supply:-

1. Increase in Demand: - As a result of an increase in demand, there is an increase equilibrium price, as a result of which the quantity sold and purchased also increases.
2. Decrease in Demand: - With a decrease in demand, there is a decrease in the equilibrium price and quantity demanded and supplied.
3. Increase in Supply: - If there is no increase in demand but an increase in supply, then the equilibrium price will go down and the quantity demanded will go up.
4. Decrease in Supply:- If because of some reason, there is a decrease in supply we will find that equilibrium price will go up but the amount sold and purchased will go down.

Simultaneous Changes in Demand and Supply:-

1. When increase in demand is more than increase in supply, the new equilibrium price will be more than the old equilibrium price.
2. When the supply increases in a greater proportion than demand, the new equilibrium price will be less than the original equilibrium price.

Perfect Competition

It is a place where there are a large number of buyers and sellers selling identical product.

Characteristics of Market-

(i) Large number of buyers and sellers.
(ii) Identical goods.
(iii) Freedom to entry or exit.
(iv) Buyers and sellers have perfect knowledge.
(v) Facilities exist for the movement of goods from one centre to another.
(vi) All forms are price takers.

Price Determination under perfect competition:-

Equilibrium of the Industry-

When the output of the industry is equal to the total demand, we say that the industry is in equilibrium, the price then prevailing is equilibrium price.

Equilibrium of the Firm-

A firm is said to be in equilibrium when it has no incentive to expand or contract production and thus maximizes its profit.

Can the Competitive firm earn profits?

In the short run, a firm will attain equilibrium position and at the same time it will earn supernormal profits, normal profits or losses depending upon its conditions.

(i) Supernormal profits and Normal Profits-

When the firm's average revenue is more than its average total cost, the firm earns supernormal profit.

(ii) **Losses-** When the firm is able to meet its variable costs and a part of fixed cost, it will try to continue production in the short run because fixed costs are already incurred and in such a case it will be able to recover a part of them.

Long Run Equilibrium of the Firm:-

In the long run, firms are in equilibrium when they have adjusted their plant so as to produce at the minimum point of their long run AC curve, which is tangent to the demand curve defined by the market price. In the long run, the firms will be earning just normal profits, which are included in the AC.

Long Run Equilibrium of the Industry:-

When all the firms are earning normal profits only. i.e. all the firms are in equilibrium and there is no further entry or exit from the market, the industry is said to have attained long run equilibrium.