MICROECONOMICS

Preliminaries

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- 1.1 The Themes of Microeconomics

- 1.2 What Is a Market?

- 1.3 real versus nominal Prices

- 1.4 Why Study Microeconomics?

- What does include?

- **consumers, workers, investors, owners of land, business firms**

MICROECONOMICS EXPLAINS HOW AND WHY THESE UNITS MAKE ECONOMIC DECISIONS.

► **microeconomics** Branch of economics that deals with the behavior of individual economic units—consumers, firms, workers, and investors—as well as the markets that these units comprise.

► **macroeconomics** Branch of economics that deals with aggregate economic variables, such as the level and growth rate of national output, interest rates, unemployment, and inflation.

THE ROLLING STONES ONCE SAID: "YOU CAN'T ALWAYS GET WHAT YOU WANT."

A perfectly competitive market has many buyers and sellers, so that no single buyer or seller has any impact on price. Most agricultural markets are close to being perfectly competitive. For example, thousands of farmers produce wheat, which thousands of buyers purchase to produce flour and other products.

As a result, no single farmer and no single buyer can significantly affect the price of wheat

A MARKET IS THE COLLECTION
OF BUYERS AND SELLERS THAT, THROUGH
THEIR ACTUAL OR POTENTIAL
INTERACTIONS, DETERMINE
THE PRICE OF A PRODUCT OR SET OF
PRODUCTS.

For example, suppose we want to calculate the real price of eggs in *1990 dollars*. Then:

$$\text{Real price of eggs in 1970} = \frac{CPI_{1990}}{CPI_{1970}} \times \text{nominal price in 1970}$$

$$= \frac{130.7}{38.8} \times 0.61 = 2.05$$

$$\text{Real price of eggs in 2016} = \frac{CPI_{1990}}{CPI_{2016}} \times \text{nominal price in 2016}$$

$$= \frac{130.7}{241.7} \times 2.47 = 1.34$$

$$\text{Percentage change in real price} = \frac{\text{real price in 2016} - \text{real price in 1970}}{\text{real price in 1970}}$$

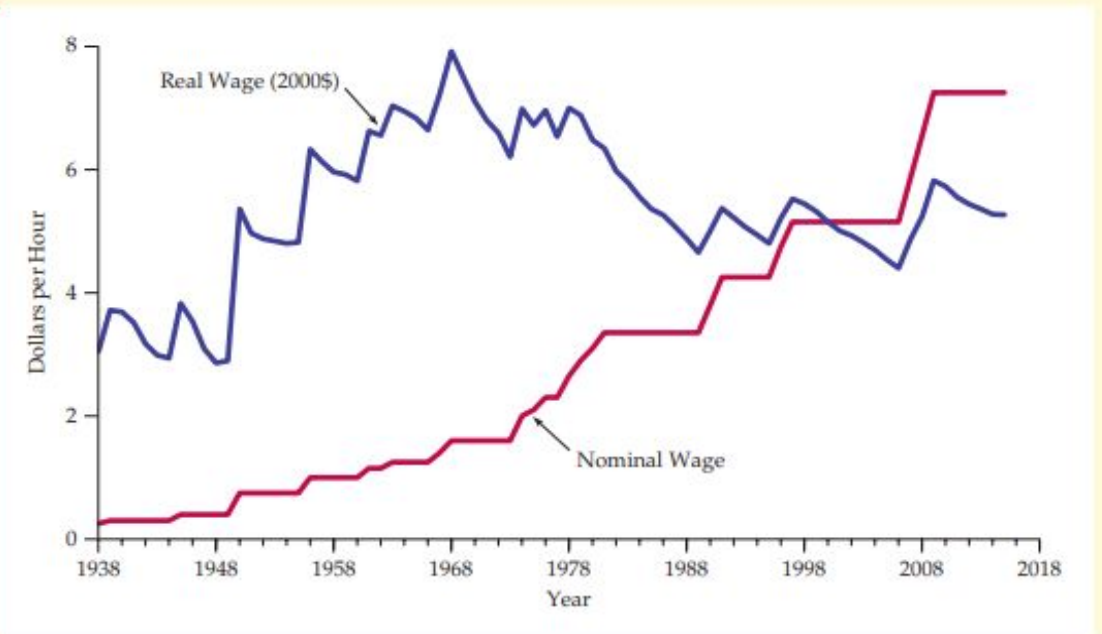$$= \frac{1.34 - 2.05}{2.05} = -0.34$$

FIGURE 1.1
THE MINIMUM WAGE

In nominal terms the minimum wage has increased steadily over the past 80 years. However, in real terms its 2016 level is below that of the 1970s.

► real price of smth. in Y (1980) =

CPI (1970)/CPI (1980) * nominal price in Y (1980)