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RESEARCH ARTICLE

MICROECONOMIC AND MACROECONOMIC: ISSUES & EFFECTS ON ECONOMIC GROWTH

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ABSTRACT

Economists have focused on the development of theory, with a heavy center on internal logical consistency. There has also been much attempt devoted to the development of appropriate empirical techniques, in particular econometrics. Less concentration has been given to the requirements for applying the latter, econometrics, to analyze relationships particular in the former, theory These aspects of functional relationships are then discussed. They are the use of control variables, the nature of causality, and the need for structural permanence. The overall implications are that many problems are assumed away in experimental economic analysis. These can fundamentally disfigure the findings and hence provide confusing information for policy makers in low-income countries.

Policy makers have traditionally considered the macroeconomic relations and the variables that can affect the economic objectives that they follow, such as prices, employment, balance of payments, and economic growth. Recently, microeconomic behavior has also been considered. To complete the analysis, it is necessary to include those variables that define the firm's development and activities, and cash flow could be this kind of variable to be included in the analysis.

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INTRODUCTION

Microeconomics is important because human being agents make choices, and choices have personal and social consequences. Incentives do matter, and they do affect individual choices. But it does not follow that individual decision making is characterized by the rules of so-called balanced choice and balanced expectations or by the reductive incentives they represent. Nor does it follow that aggregates can be analyzed in terms of spokes person agents. The historical, empirical and analytical confirmation against this set of hypotheses is overwhelming. One purpose of this paper is to survey this substantiation. But a larger purpose is to demonstrate that the central empirical findings of microeconomics do not require any such foundation, because they can be derived from a wide range of individual decision making modes. Aggregates are shown to be "energetically indifferent" to their micro foundations because shaping structures such as budget constraints and social Influences which generally play decisive roles in producing aggregate patterns. Once it is understood that very different types of micro foundations can give rise to the same market-level or economy-wide patterns, we can divider microeconomics into two types of propositions. Empirically grounded propositions which can be derivative from a wide variety of micro foundations: downward sloping demand curves, differential income elasticties for necessary goods, income-driven consumption functions, etc. And propositions which depend on the specific characterization of individual behavior: where the understood foundation is rational choice, this latter set includes the usual theorems on the efficiency, harmony and general optimality of market processes. The advantage of scheduled in this manner is that it greatly expands the room for the probable characterizations of individual economic behavior while retaining key microeconomic patterns which play an important role in economic examination. None of this implies that micro processes are unimportant. On the contrary, they play a central role in influential individual paths and evaluating the social implications of macro outcomes. In addition, they can become important at the aggregate level if and when people choose to act in concert, as in the case of a general work stoppage or a consumer refuse. Agency can be brought back into market analysis. We therefore need to understand how individual agents actually behave, how they actually respond to changes in the macro environment, and to what extent the environment is in turn affected. Behavioral and experimental economics, psychology and sociology, can all have their say. Two conclusions can be consequent at this point. First, that a correspondence with the aggregate empirical facts does not opportunity any particular vision of micro processes: many roads lead to Rome. And second, when one examines how individuals actually behave, the *homo economics* model of behavior is a amazingly bad one In recent years, the project of providing microeconomic fundamentals for macroeconomics

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has taken on new urgency. Some philosophers and economists have challenged the project, both for the way economists actually approach micro foundations and for more general anti-reductionist reasons. Reductionists and anti-reductionists alike, however, have taken it to be trivial that the macroeconomic facts are comprehensively determined by microeconomic ones.. This is simply a consequence of the difference in the descriptive goals of the respective fields, which implicitly carve out the microeconomic property set in such a way that it underdetermines macroeconomic properties. It means, however, that microeconomics-based foundations for macroeconomics are insufficient in principle. Countries that have pursued distortionary macroeconomic policies, including high inflation, large budget deficits and skewed exchange rates, appear to have suffered more macroeconomic instability and also grown more slowly during the postwar period. Does this reflect the causal effect of these macroeconomic policies on economic outcomes? One reason to suspect that the answer may be no is that countries pursuing poor macroeconomic policies also have weak ‘‘institutions,’’ including political institutions that do not restrain politicians and political elites, ineffective enforcement of property rights for investors, widespread corruption, and a high degree of political unsteadiness. Economics is split between analysis of how the overall economy works and how single markets function

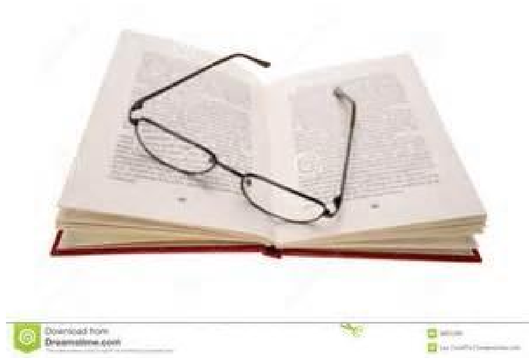
Economists also look at two realms. There is big-picture *macroeconomics*, which is anxious with how the overall economy works. It studies such things as employment, gross domestic product, and inflation—the stuff of news stories and government policy debates. Little-picture *microeconomics* is afraid with how supply and demand interact in individual markets for goods and services. In macroeconomics, the subject is naturally a nation—how all markets interact to generate big phenomena that economists call collective variables. In the realm of microeconomics, the object of analysis is a single market—for example, whether price rises in the automobile or oil industries are driven by demand changes. The government is a major object of analysis in macroeconomics—for example, studying the role it plays in contributing to overall economic growth or fighting inflation. Macroeconomics often extends to the international globe because domestic markets are linked to foreign markets through trade, investment, and capital flows. But microeconomics can have an international module as well. Single markets often are not restricted to single countries; the global market for petroleum is an obvious example.

Objective

To show the relationship between cash flow and one of the final economic policy targets, economic growth. To show the relationship between cash flow and applied economics, then develops the effects of cash flow on economic growth.

Micro and Macro

Micro as the name suggests is for small stuffs, thing like factories, household, restaurants, etc. whereas, Macro deals with the large stuff: the economy of a prefecture, a state or an entire nation. They are similar to magnifying glasses and reading glasses. Sometimes you can use these:



but at times you may require these too:

too see what is really going on with the economy.

Equilibrium – Disequilibrium

Classical economic analysis assumes that markets return to equilibrium (D=S)***always!*** i.e., If demand increases faster than supply, this causes price to rise and firms act in response by increasing supply. For a long time, it was assumed that the economy of the country behaved in the same way as economy of factories did. Before, the 1930s, there wasn’t really a divide branch of economics called macroeconomics.

Great Depression and Birth of Macroeconomics

In the 1930s, economies were clearly not in equilibrium. There was high unemployment, output was below ability, and there was a state of disequilibrium. In short, things were bad money-wise and the economists kept scratching their heads as to why companies couldn't supply more to meet everybody's demands? Classical economics didn’t really have an clarification for this dis-equilibrium, which from a micro perspective, should have been resolved as soon as the demand-supply gap was met. In 1936, J.M. Keynes produced his *The General Theory of Employment, Interest and Money,* this examined why the depression was permanent so long. quickly, he examined why we can be in a state of disequilibrium in the macro economy.
In other words, microeconomic principles of markets defrayal, didn’t necessarily apply to macro economics. This was because the larger economy consists of a multitude of commodities having large fluctuations in their demand and supplies. So, for example if there is a excess for wheat and a scarcity of meat in the market, all vegetarians are going to be satisfied, while the non-vegetarians are going to have nothing to eat .So, since 1936, macroeconomics developed as a separate fiber within

economics. There have been competing explanations for issues such as inflation, recessions and economic growth.

What's the difference between microeconomics and macroeconomics?

Microeconomics is generally the study of individuals and business decisions; macroeconomics looks at higher up country and government decisions. Macroeconomics and microeconomics, and their wide selection of underlying concepts, have been the subject of a great deal of writings. The field of study is vast; here is a brief summary of what each covers:

Microeconomics

Microeconomics is the study of decisions that people and businesses make regarding the portion of resources and prices of goods and services. This means also taking into account taxes and regulations created by governments. Microeconomics focuse on supply and Demand and other forces that determine the price levels seen in the economy. For example, microeconomics would look at how a specific company could maximize its production and capacity so it could lower prices and better compete in its industry. Microeconomics' rules current from a set of compatible laws and theorems, quite than beginning with empirical study.

Macroeconomics

Macroeconomic on the other hand, is the field of economics that studies the behavior of the economy as a whole and not just on specific companies, but whole industries and economies. This looks at economy-wide phenomena, such as Gross National Product (GDP) and how it is affected by changes in unemployment, national income, rate of growth, and price levels. For example, macroeconomics would look at how an increase/decrease in net exports would influence a nation's capital account or how GDP would be affected by un employment rate John Maynard Keynes is often credited with founding macroeconomics. He started the use of monetary aggregates to study broad phenomena; some economists refuse his theory and many of those who use it disagree about how to interpret it. While these two studies of economics become visible to be different, they are actually interdependent and complement one another since there are many overlapping issues between the two fields .. For example, increased inflation (macro effect) would cause the price of raw materials to increase for companies and in turn affect the end product's price emotional to the public. The bottom line is that microeconomics takes a bottoms-up approach to analyzing the economy while macroeconomics takes a top-down approach. Microeconomics tries to understand human choices and source allocation, and macroeconomics tries to answer such questions as "What should the rate of inflation be?" or "What stimulates economic growth?"Regardless, both micro- and macroeconomics provide fundamental tools for any finance professional and should be studied together in order to fully understand how companies operate and earn revenues and thus, how an complete economy is managed and continual.

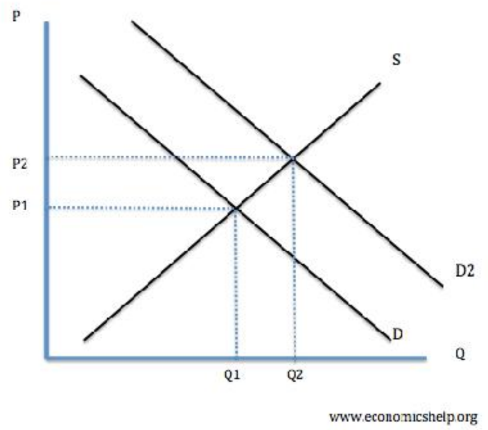
Similarities between Macroeconomics and Microeconomics

Although it is expedient to split up economics into two branches – microeconomics and macroeconomics, it is to some extent an artificial divide.

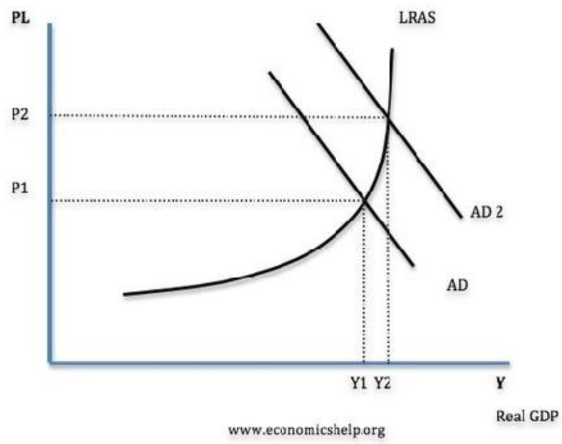
1. Micro principles used in macro economics. If you study impact of deflation (the loss in value of a commodity), you are likely to use same economic principles, such as the elasticity of demand (increase or decrease in demand) to changes in price.
2. Micro effects macro economics and vice versa. If we see a rise in oil prices, this will have a significant crash on cost-push inflation (increase in prices of goods due to increase in in prices of raw materials). If technology reduces costs, this enables faster economic growth .
3. If car prices rise, this is a micro economic effect for automobile market. But, the market for automobiles is so powerful that it could also be considered a macro-economic variable, and will influence monetary policy .

Moving from Macro to Micro

If we look at a simple supply and demand diagram for RC toy cars. Microeconomics is concerned with issues such as the impact of an increase in demand for RC cars by kids.



This micro economic analysis shows that the increased demand leads to higher price, and higher quantity. However, Macro economic analysis looks at all goods and services produced in the economy.



The macro diagram is looking at Real GDP (which is the total amount of output produced in the economy) instead of quantity. Instead of the price of a good, we are looking at the overall price level (PL) for the economy.

Macro diagrams are based on the same principles as micro diagrams, we just look at Real GDP rather than Quantity and Inflation rather than Price Level (PL).

There are three work streams within this Sub programme

- ***Macro-economic policy***
- ***Micro-economic policy***
- ***Economic Modeling***

Macro-economic policy

In detection of its developmental agenda, government uses a set of policy tools such as taxation, public expenditure, subsidies, credit access and interest rate changes. Macro-economic policy seeks to co-ordinate the use of these policy tools so that they distribute sustainable human development outcomes. As part of the broad levers of policy, macro-economic policy impacts on employment, investment and economic growth, among others. To achieve an environment that is favorable for sustainable employment-generating growth, macro-economic policy plays a key role. Policy work on the macro-economy should clarify the trade-offs that government faces at any given point in time, and provides guidelines for government to make choices in the face of these trade-offs.

The purpose of this work stream is to identify macro-economic policy options available to the country, assess different options in opposition to development and honest work goals and make recommendations to breakfront on policy issues. In so doing, it will recognize applicable macroeconomic policy issues with due look upon to the policy goals of government, the lessons from international experiences, the priorities for African development and the challenges posed by the global economic crisis.

Micro-economic policy

Micro-economic policy deals with policies under fire at the development of economic sectors, firms and households. It aims to make certain the promotion of investment in the real economy, efficiency of economic institutions and productivity, thereby raising income levels and living standards.

The purpose of this work stream is to identify the available micro-economic policy options, appraise different options against development and well-mannered work goals and make recommendations to cabinet on policy and implementation issues. In so doing, it will identify relevant micro-economic policy issues with due regard to the policy goals of government, In order to perform its functions effectively, it will develop an economic brainpower database on real economy entities, economic entities that the state has a shareholding in and provides incentives to or which have received state support. In fulfilling its functions, the work stream will research and develop policies that help manufacture equity and the generation of full employment.

Economic Modeling

The economy is a complex self-motivated system. A formal and quantified framework is an irreplaceable adjunct to the processes of policy thought. Many economic policy measures can only be understood and discussed properly with the help of a model which sets out the key relationships between economic variables. When analyzing the consequences of a policy proposal at the macroeconomic level, where “everything relates to everything else”, a model is essential. Models help establish synergy between various policies by capturing empirically important effects and indirect links in the economy and count the blow of policy proposals on aggregate variables (e.g., growth, employment, inflation, etc), sector performance, poverty and inequality.

The purpose of this work stream is: To outline and examine future paths of the economy under a different mix of policies in a consistent manner. To quantitatively analyze the likely impact of policy options and shock on the main growth and development index. To analyze the impact of uncertainty on the economy by showing how the system will respond to different development in external factors such as oil prices or world trade.

Macroeconomic stability, inclusive growth and employment

Macroeconomic stability and growth

The recent financial crisis has highlighted the harmful impacts on living standards that can result from macroeconomic insecurity. Large swings in economic activity, high inflation, unsustainable debt levels and unsteadiness in exchange rates and financial markets can all contribute to job losses and increasing poverty, endangering progress towards achieving the MDGs. Maintaining macroeconomic stability therefore is a prerequisite for sustained and inclusive development. The broad objective of macroeconomic policy is to contribute to economic and social wellbeing in an equitable and sustainable manner. Because unemployment and under employment are the main causes of poverty, a dangerous task is to preserve the economy as close as possible to full employment. This target implies that in developing countries, employment in the formal sector at least keeps up with labour force growth and rural-urban migration. Continued and sustained economic growth is not only a requirement for employment generation, but also provides countries the fiscal space to address other critical social concerns, such as access to health services, hygiene and safe drinking water, and others. Growth has therefore been a critical factor in reducing global poverty over the last two decades. Accordingly, the most important goal of macroeconomic stabilization policies should be to achieve stable economic growth. This key policy objective is complemented by the need to stabilize intermediate variables that can have a strong impact on growth. Price stability and external balances in particular play an important role through their impact on investment decisions. To achieve these intermediate goals, countries need policy space to use macroeconomic tools athletically, including counter-cyclical fiscal and/or monetary policies, appropriate investment and exchange rate regimes, and strong financial sector regulation and supervision. Country-level policy space needs to be complemented by policy coordination on a global level, especially between areas of universal importance

Policy coherence for economic growth

A. In addition to active macroeconomic policies, countries that have achieved invariable economic growth have used a range of sympathetic policy interventions. They involve a country-specific mix of trade, finance and investment policies, along with dynamic labour market and social policies. However, certain common features can be recognized. First, it is primarily the private sector that invests, innovates, and trades. It is an important stakeholder in any country's broader development strategy. However, to play this role, companies rely on performance infrastructure, public education and research, and access to credit and business services. Current gaps are particularly conspicuous in rural areas and for micro-, small and medium-sized enterprises, and addressing them will require a sustained public effort and international support, for example through aid for trade, reliable access to development finance and public investments in infrastructure.

B. scale matters. Structural transformation, which is at the heart of a dynamic growth process, requires large investments. Developing countries often lack local enterprises of adequate scale to finance such investments and to manage large-scale projects that facilitate industrial and technological upgrading. More attention needs to be given to building and modifiable medium to larger sized enterprises, so that the links between profits and domestic reinvestment are strengthened.

C. successful countries have logical macroeconomic, employment, trade, industrial, environmental and social policies. Only when these policies mutually reinforce each other can they bring about continued economic growth. Policy coherence at the national level has to be complemented by policy coherence at the international level, providing countries with the policy space to put into practice their national development strategies.

D. coherent policies require a accomplished state. Efficient and accountable state action is essential for the management of large-scale economic and social change. The state is the only institution that can behavior such policies and that is (or, at least, is potentially) accountable to the general citizenry for its decisions. If there are institutional weaknesses and governance deficits, they must be confronted at every level of development. Regardless of its preferred policy goals and instruments, any successful state must be able to strengthen its own capacities to encourage learning and cooperation and to deepen the institutional networks that are needed by non-government actors to support long-term growth and innovation.

A. Inclusive Growth The MDGs were designed not simply to eradicate poverty, but to uphold the principles of human self-respect, equality and equity. A precondition for the achievement of these goals is that benefits cannot determinedly and excessively accrue to one or more groups in society. For this reason, it is crucial that growth is inclusive – that it provides broadly shared opportunities to accumulate productive assets like education, that it allows people to utilize these assets in growth-enhancing activities and to benefit from such activities, and that it requirements for those that do not benefit directly from growth. Both the Arab Spring and the 6 global 'Occupy' movements point to the importance of equity both as an objective in itself, as well as an important factor to support the political authority of economic and development policies. Economic growth does not automatically translate into widely shared gains. Policy choices matter: object poverty has persisted despite rapid growth in several economies, while some poorer and slower-growing economies have been extraordinarily successful in alleviating extreme poverty and social deficiency. The relatively even distribution of income and wealth in several Asian "tiger" economies and, before them, in the Nordic countries, demonstrates that equality is associated with sustained strong economic performance. So growth and social addition can be pursued together, but only if countries build a resilient social contract that supports structural change but also mitigates its social costs. Policy choices will determine whether growth can promote social development, and whether social development in turn further fuels economic growth, putting a country on a sustainable and comprehensive growth path. The links between inequality and growth are many and complex. Greater inclusiveness depends on the distribution of income, employment creation, and its gender proportions, among other factors. With regards to gender, there is a close and well-known relationship between socio-economic development and women's empowerment. Economic policies, particularly those aimed at fostering market integration, tend to impact on men and women differently, and development strategies should aim to promote gender and other forms of equality, in order not only to increase social welfare and facilitate the realization of human potential but also to improve the underlying presentation of the economy.

B. Policy makers will have to pay particular attention to the agricultural sector, public investments in the social sectors, and, most importantly, the employment satisfied of growth in order to achieve inclusive development paths. Over half of the labour force in many developing countries works in agriculture. Farmers work under unconfident conditions and with poor rewards, often mixing paid employment with work on their own small plots. Experiences in Asia and Latin America (though less so in Africa) show that the expansion of non-farm rural employment and improvements in job conditions for these workers can have a large and immediate impact on the economic security of households. In order to reach rural smallholders, the state will need to partner with manufacturer associations, the private sector and other non-state actors to deliver support services. These include investment in agricultural research and development, rural infrastructure, education and extension services, as well as enhanced access to credit, inputs, insurance, land for rent and secure property rights. In terms of social sector spending, public sector investments in education, training and health programmes allow countries to address different aspects of poverty and elimination directly. Investments in social services can also boost aggregate demand that "crowds in" private investment. Cash transfers can support vulnerable groups, including single parents, children, older persons, and persons with disabilities or chronic illnesses, who may have few alternative sources of income.

C. Employment and decent jobs

The most critical constituent of inclusive growth is the creation of decent jobs. Full, productive and decent employment is the most important source of income security and it paves the way for broader social and economic advancement, strengthening individuals, their families and communities.. In order to succeed at this task, sustainable development strategies need a strong employment constituent which aims at raising the productivity of the poorest workers, and at ensuring that they get to keep most of their increased earning power by progressively increase labour market institutions. A focus on decent jobs is critical both in the short-term, to curb the dramatic effects of a expanded jobs crisis, and in the longer term, to make economic growth more sustainable, inclusive and reasonable. Components of an employment-focused development policy include macroeconomic, environmental and industrial policies that foster structural change, investment and job creation, as well as sound social and labour market policies. To achieve structural revolution that is pro-poor, a set of coherent macroeconomic, trade and labour market policies that all have an impact on wages and employment conditions will be needed. Increasing trade presents an opportunity for job creation if farmers and domestic firms are able to expand, contribute in global value chains and increase their demand for labour. But greater openness to trade can also lead to unsettling adjustment processes. In some cases, rapid liberalization of trade and financial markets combined with tight macroeconomic policies has contributed to downward pressure on wages in the formal economy and has led to a pattern of employment that has added to rather than reduced informal employment. In part, this reflects the recent additions to the global labour force along with heightened mobility of capital. But policy choices also matter. Low levels of inflation and labour market elasticity have been given priority in some countries over job creation and decent work conditions. Structural transformation also provides an opportunity for achieving environmental sustainability of growth. There is considerable potential for the generation of decent work from 'greening' the economy. More suitable macroeconomic policies, along with active labour market policies, can help to manage the cyclical threats to employment, and also boost skills and capacities to ensure that workers can adapt to longer-term structural changes. The pace and sequencing of market opening procedures needs to be associated with investment in physical infrastructure and human capital so that wage improvements are better aligned with rising productivity. Skills development, minimum wages and employment protection legislation can all contribute to a fair distribution of opportunities and benefits. Formal social fortification systems complement productive inclusion by providing social security guarantees that ensure that all people have access to essential goods and services. straight and productive work also leads to broader social development and has positive feedbacks on other areas of life. Decent work in conditions of freedom, equity, security and human dignity is central to people's lives and a key factor in their sense of identity and their social relations. Evidence shows that as work becomes more polite in income terms, people's concerns over corruption and interest in democratic governance increases. They are also more likely to invest in their children's health and education as well as their own health. Employed wage-earners are almost twice as likely to report having a general trust in people than are the unemployed. They also report a substantially higher propensity to have some type of civic engagement

The Macroeconomics of Fiscal Policy

It is hard to imagine a more opportune time for a quantity on the macroeconomics of fiscal policy, since the last few years have seen government spending, taxation, and deficit financing move to the front position of policy debates worldwide. In Japan in the 1990s, deflation and short-term interest rates that hovered near zero forced policymakers to turn to fiscal policy to stimulate the country's sluggish economy. For somewhat similar reasons, fiscal policy also played an important role in development the U.S. economy's recovery after the 2001 recession. Members of the European Monetary Union are also reconsidering the merits of maintaining the fiscal restraint required by their "Pact for Stability and Growth" as they seek ways to foster expansion after years of weak growth. At the sometime, the discussion of fiscal policies has renewed attention to the effects of large continuous fiscal deficits on national savings, investment, interest rates, and the current account. The effect of government expenditures, taxation, and debt on the aggregate economy is of immense importance, and therefore great argument, in economics. A broad range of essential services is provided by governments, requiring the collection of taxes and fees..

How Does Fiscal Policy Affect the Macro Economy?

Fiscal policy affects aggregate demand, the distribution of wealth, and the economy's capacity to manufacture goods and services. In the short run, changes in spending or taxing can alter both the enormity and the pattern of demand for goods and services. With time, this aggregate demand affects the allocation of resources and the productive capacity of an economy through its influence on the returns to factors of production, the development of human capital, the allocation of capital spending, and investment in technological innovations. Tax rates, through their effects on the net returns to labor, saving, and investment, also influences both the magnitude and the allocation of productive capacity. Macroeconomics has long featured two general views of the economy and the ability of fiscal policy to stabilize or even affect economic activity. The equilibrium view sees the economy quickly returning to full capacity whenever disturbances displace it from full employment. Accordingly, changes in fiscal policy, or even in monetary policy for that matter, have little potential for stabilizing the economy. Instead, predictable delays in recognizing economic disturbances, in enacting a fiscal response, and in the economy's reacting to the change in policy can intensify, rather than diminish, business-cycle fluctuations. An alternative view sees critical market failures causing the economy to adjust with more difficulty to these disturbances. If, for example, consumers were to reduce their current spending in order to consume more in the future, producers, who would not know the consumers' future plans for want of the suitable futures markets for goods and services, would see only an indistinct drop-in demand, and this might encourage them, in turn, to reduce their hiring and capital spending. In this world, changes in fiscal and monetary policy.

The Economic Way of Thinking

Economists study choices that scarcity requires us to make. This fact is not what distinguishes economics from other social sciences; all social scientists are interested in choices. An anthropologist might study the choices of olden peoples; a political scientist power study the choices of legislatures; a psychologist might study how people choose a mate; a sociologist might study the factors that have led to a rise in single-parent households. Economists study such questions as well. What is it about the study of choices by economists that makes economics different from these other social sciences?
Three features distinguish the economic approach to choice from the approaches taken in other social sciences:

- Economists give special importance to the role of opportunity costs in their analysis of choices.
- Economists assume that individuals make choices that search for to maximize the value of some objective, and that they define their objectives in terms of their own self-interest.
- Individuals make the most of by deciding whether to do a little more or a little less of something. Economists argue that individuals pay awareness to the consequences of small changes in the levels of the activities they pursue.

The emphasis economists place on opportunity cost, the idea that people make choices that maximize the value of objectives that provide their self-interest, and a focus on the effects of small changes are thoughts of great power. They constitute the core of economic thinking.

XOpportunity Costs Are Important

If doing one thing requires giving up another, then the predictable benefits of the alternatives we face will affect the ones we choose. Economists argue that an understanding of opportunity cost is essential to the examination of choices. As the set of available alternatives changes, we expect that the choices individuals make will change. A rainy day could change the occasion cost of reading a good book; we might expect more reading to get done in bad than in good weather. A high income can make it very costly to take a day off; we might expect highly paid individuals to work more hours than those who are not paid as well. If individuals are maximizing their level of satisfaction and firms are maximizing profits, then a change in the set of alternatives they face may affect their choices in a predictable way.

The importance on opportunity costs is an emphasis on the examination of alternatives. One benefit of the economic way of thinking is that it pushes us to think about the value of alternatives in each problem involving choice.

CONCLUSION

The field of economics is typically divided into two broad realms: microeconomics and macroeconomics. It is important to see the distinctions between these broad areas of study.

Microeconomics is the branch of economics that focuses on the choices made by individual choice making units in the economy—typically consumers and firms—and the impacts those choices have on individual markets. Macroeconomics is the branch of economics that focuses on the impact of choices on the total, or aggregate, level of economic activity. Why do tickets to the best concerts cost so much? How does the danger of global warming affect real estate prices in coastal areas? Why do women end up doing most of the housework? Why do senior citizens get discounts on public shipment systems? These questions are generally regarded as microeconomic because they focus on individual units or markets in the economy. Is the total level of economic activity rising or falling? Is the rate of inflation increasing or decreasing? What is happening to the unemployment rate? These are questions that contract with aggregates, or totals, in the economy; they are problems of macroeconomics. The question about the level of economic activity, for example, refers to the total value of all goods and services produced in the economy. Inflation is a determine of the rate of change in the average price level for the entire economy; it is a macroeconomic problem. The total levels of employment and unemployment in the economy symbolize the aggregate of all labor markets; unemployment is also a topic of macroeconomics. Both microeconomics and macroeconomics give attention to individual markets. But in microeconomics that concentration is an end in itself; in macroeconomics it is aimed at explaining the movement of major We have now examined the characteristics that define the economic way of thinking and the two branches of this way of thinking: microeconomics and macroeconomics.

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