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Study on economics and its two major branches

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Abstract

Purpose of this journal is to study Economics and its two main branches and overall Indian economy. Economics is a social science that studies the production, distribution and consumption of goods and services. It enquires how a business gets its income and how it's used. It is a study of wealth as well the study of a business. Economics can be divided into Microeconomics, which concentrates on the behaviour of the aggregate economy and Macroeconomics, which focuses on individual consumers. Every economy whether developed, developing or under developed has to face some economic problems as the means are limited and wants are unlimited.

The economy of India is a developing mixed economy. It is the world's sixth-largest economy by nominal GDP and the third-largest by purchasing power parity (PPP). The country ranks 141st in per capita GDP (nominal) with \$2,134 and 123rd in per capita GDP (PPP) with \$7,783 as of 2018. After 1991 economic liberalisation, India achieved 6-7% average GDP growth annually. In FY 2015 and 2018 India's economy became the world's fastest growing major economy, surpassing China.

Keywords: Micro economies, macro economics, GDP, demand, supply, market, consumer

Introduction

Economics is a social science that studies the production, distribution and consumption of goods and services. It enquires how a business gets its income and how it's used. It is a study of wealth as well the study of a business. Economics can be divided into Microeconomics, which concentrates on the behaviour of the aggregate economy and Macroeconomics, which focuses on individual consumers. Every economy whether developed, developing or under developed has to face some economic problems as the means are limited and wants are unlimited.

Objectives

1. Is to study concept of Economics
2. Is to understand concept of Micro and Macro Economics
3. Is to study and analyze various factors and policies of Micro and Macro Economics, which are used to regulate economic conditions in India

Basic Economic problems

1. **Allocation of Resources:** It arises due to the scarcity of resources and arise questions like what to produce and how much to produce as to which needs to be satisfied and which should be left. Production of a desired commodity is only possible only be reducing the quantity of resources used in the production of other goods. The problem deals whether to produce capital goods or consumer goods as both are important and we have to determine the optimal production ratio between the two.
2. **Economic Efficiency:** It is important to use the resources as efficiently as possible as they are scarce. It is important to know that the production or reallocation of one product is done without reducing the output of any other good. Inefficiency of production and distribution exist in all types of economies. Some cost must be incurred to remove these efficiencies but should not be more than the gain, and then it will not be worthwhile to remove them.
3. **Full-Employment of resources:** All the available resources should be fully utilized due to its scarcity. A community should achieve maximum satisfaction by using the scarce resources in the best possible manner and by not wasting any resources. Employment of resources are categorised as Labour-Intensive & Capital-Intensive.

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- 4. Economic Growth:** Increase in the productive capacity of an economy is called Economic Growth. If productive capacity grows, an economy can produce more goods, which further raises the standard of living. The problems of economic growth have been discussed through various growth models, like the Harrod-Domar model, the neoclassical growth models of Solow and Swan, and the Cambridge growth models of Kaldor and Joan Robinson.

Methodology

Microeconomics: It refers to the branch of economics which studies the problems of individual, households, firms or industries in making decision regarding the allocation of resources. It is to determine the price and output and allocating the limited resources among alternative uses. Main objective of microeconomics is to explain the principles, problems and policies related to the optimum allocation of resources.

Microeconomics Concept

- 1. Demand, Supply & Equilibrium:** Demand & Supply are like the two pillars of Microeconomics as they determine the price in a perfectly competitive market. It concludes that the stable economic equilibrium is the price unit for a particular good at which the quantity demanded by consumers equals the quantity supplied by producers.
- 2. Elasticity:** Elasticity is the ratio of the percentage change in one variable to the percentage change in another variable, when the later variable has a casual influence in the former. It is a tool for measuring the responsiveness of an economic variable to a change in another variable in unitless ways. Elasticities frequently used are price elasticity of demand & supply, income elasticity of demand, elasticity of substitution between factors of production & elasticity of intertemporal substitution.
- 3. Consumer Demand Theory:** This theory emphasizes on the relationship between consumer demand for goods/services & their prices. The relationship between preferences and consumption expenditures is used to relate preferences to consumer demand curve. By using this theory we can analyze how equilibrium can be achieved by maximizing utility subject to consumer budget constraints.
- 4. Cost of Production:** It states that the price of an object is determined by the sum of the cost of all the resources that went into making it, comprising any of factors of production: labour, land, capital & technology.
- 5. Opportunity Cost:** It tells you when to do something or when not to do something; you can do only one thing at a time and give up on the other things. The opportunity cost of any activity is the value of the next best alternative thing you may have done instead.
- 6. Market Structure:** The market structure have several types of interacting market systems. A market is a place where sellers sell and buyers buy products. There are many forms of market: Perfect Competition- many different firms making a homogenous product/service, Competitive market-large number of independent firms with small proportion of overall market, Oligopoly-small number of firms with more than 40% of market share, Oligopsony- many sellers with few buyers,

Monopoly- only one seller of a product/service & Monopsony- only one buyer. Competition is the regulatory mechanism of the market system.

Macroeconomics: It refers to the branch of economics which study the economy as a whole. It studies how the economic aggregates like GDP, national income, price indices, unemployment rates, and the interrelations among the different sectors of the economy behaves. Macroeconomics model explains the relationship between variety of factors such as consumption, inflation, savings, investments, international trade & finance, national income & output.

Macroeconomics Concept

- 1. Income & Output:** The National output is the total amount of all goods and services produced in a country during a period of time, when the production units or organizations sell everything they produce they generate an equal amount of income. We can measure the output by calculating the total income from the sale of all goods & services. Output can be measured by GDP (Gross Domestic Product) or one of the national accounts and by measuring GDP economists can understand the market changes following by identifying the measures to improve the GDP. Income & Output can be affected by the recession & other market factors.
- 2. Unemployment:** Unemployment rate be measured by calculating the percentage of workers without jobs. Only the workers actively looking for jobs are only included in unemployment rate and excludes the retired, pursuing education or discouraged from seeking work. Unemployment categories include classic unemployment- when wages are too high for employers to consider hiring more workers, frictional unemployment- when the time taken to search for an appropriate employee is too long & structural unemployment- when there is mismatch between a worker's skills & the actual skills required for a job. Another category is cyclic unemployment that occurs when an economy's growth is stagnant.
- 3. Inflation & Deflation:** Increase in the general price across the entire economy is called inflation, and decrease in the general price is called deflation. Inflation & deflation can be measured by studying price indexes (weighted average of price for a class of product & services). Inflation occurs when economy grows too quickly. Similarly, a declining economy can lead to deflation. Appropriate measures by economists can be taken to curb inflation rates by studying inflation & deflation. Inflation can lead to increased uncertainty and other negative consequences. Deflation can lower down the economic output.

Macroeconomic Policies

A government may apply these two macroeconomic policies in order to stabilize the economy, which means boosting the economy to the level of GDP consistent with full employment.

- 1. Monetary Policy:** Central banks the monetary authority of a country implements the monetary policy to stabilize prices & GDP, reduce unemployment and to increase the strength of a country's currency. It also controls the supply of money in an economy by issuing

money to buy bonds which pumps the supply of money and lowers the interest rates. On other hand, the central bank of a country can sell bonds and take money out of circulation.

2. Fiscal Policy: The government uses the fiscal policy to stabilize the economy during the business cycle as under this process governments revenue & expenditures are used as instruments to influence the economy. For Example, if production does not match the required output, the government can spend on idle resources and help in increasing the output.

Monetary policy is preferred over the fiscal policy as monetary policy is under the control of the Central bank of a country, which is an independent organization. And fiscal policy is under the control of the government, which can be affected by political intensions.

Economy of India

- The economy of India is a developing mixed economy.
- It is the world's sixth-largest economy by nominal GDP and the third-largest by purchasing power parity (PPP).
- The country ranks 141st in per capita GDP (nominal) with \$2,134 and 123rd in per capita GDP (PPP) with \$7,783 as of 2018.
- After 1991 economic liberalisation, India achieved 6-7% average GDP growth annually. In FY 2015 and 2018 India's economy became the world's fastest growing major economy, surpassing China.

India topped the World Bank's growth outlook for the first time in fiscal year 2015–16, during which the economy grew 7.6%. Despite previous reforms, economic growth is still significantly slowed by bureaucracy, poor infrastructure, and inflexible labor laws. With its young population, corresponding low dependency ratio, healthy savings and investment rates, and increasing integration into the global economy the long-term growth prospective of the Indian economy is positive.

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