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What are the differences between the study of Micro Economics and Macro Economics and how are they inter-related with regard to the drafting of economic policies to remain current and relevant to the global economic environment

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ABSTRACT

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As economics is mostly known for being a social science, studying production, consumption, distribution of goods and services, its primary goal is to care about well-being of its society, which includes firms, people, and so forth. The study of economics mainly consists of its two crucial components, which are microeconomics and macroeconomics. Together these main parts of economics are concerned with both private and public sector issues including, inflation, economic growth, choices, demand and supply, production, income, unemployment and many other aspects. It is already mentioned that well-being of society would be established when government, while making economics policies, assume all factors including those people who are employed or unemployed, so that no one gets hurt or suffer in the end. When it comes to making economic decisions and policies, governments should take into consideration that decisions made on a macro level has huge impact on micro and the same with micro, firms, households, individuals' behaviors and choices come as aggregate in total, then turns into macro level, which triggers the introduction of some policies. In other words, tax reforms, if not appeal to suppliers or cut income of consumers, may hugely impact on overall GDP, as production and consumption would fall. Therefore, this paper will provide an insight into how both levels of economics differ from each other, when they cooperate, what are commonalities and how they are inter-related.

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Macroeconomics and its functions

Being the important component of economics, macro is the study of national, regional and global economic behavior, which is concerned with analyzing, examining, monitoring and maintaining economy-wide situations and issues like total number of goods or services produced within an economy, unemployment level, inflation level, general price behavior and national income. These concerns of macroeconomics prompt that macro focuses on large-scale and general economic factors, assuming simple and individual factors of economy to aggregate. It analyzes and gathers economic data, which includes unemployment, GDP growth, income and inflation. In other words, macroeconomics deals with behavior, performance, decision-making and structure of aggregate economy in its fundamental form, rather than concentrating on individual components of economy. It is known that complexity in macroeconomic structures have existed since ancient times, where societies contributed to the development of its discipline and it is easy to interpret the meaning of macroeconomics. Up to 1930, the analysis on economic events mainly focused on micro level by studying individual firms, industries and consumers. The incipience of macroeconomics relates to the theory of self-regulating markets introduced by Scottish economist Adam Smith, who believed that economic events like recession, inflation, unemployment tend to be natural factors which cannot be avoided.

Microeconomics and its functions

As microeconomics is the inalienable branch of economics, it studies the isolated units of economy, like each company, market, household, person and other individual pieces, by putting together, can make up the aggregate economy. Therefore, it is the branch of economics which is concerned with single effects and factors of individual decisions, choices and behavior. These factors influence individual economic aspects, incur changes in factors and

determine demand and supply is affected. In general, micro deals with household and individual behavior, which is referred as consumer theory. The concept of utility builds consumer theory, including economic level of happiness and the increase of economic happiness can increase consumption of particular goods and demand for them. The utility function captures the kind of goods is chosen by consumers and measures the level of happiness if particular good is consumed. On the other hand, consumers are tied up with their budget constraints, which limits the variety of goods can be afforded by them. Consumers appear to play a role of utility maximizer, where they try to buy the optimal value and number of goods, which can maximize their utility, and of course within the frames of their budget potential. Producer theory, meanwhile, reveals how producers behave and views firms and companies as entities that can turn input such as factors of production into output, by using particular level of technology.

Distinction between micro- and macro-economics

The difference between microeconomics and macroeconomics simply relates to the scope of coverage. That is to say microeconomics examines and studies individual components of economics separately and individually such as individual firms, individual households, individual industries. Macroeconomics, on contrast, focuses mainly on the whole economy, assuming each component to aggregate level. For instance, when studying individual car production company (BMW), the study would be on a micro level, but if we study whole car production sector, the study, in this case, would be on macro level. In other words, if we consider economy as a forest, the study of microeconomics would be about examining the trees of that forest and macroeconomics would be studying the forest itself.

Microeconomics		Macroeconomics	
1.	The study of individual units of economy.	1.	The study of aggregates of economy and itself as whole.
2.	Deals with individual prices, individual outputs, individual income, etc.	2.	Deals with national income, national output, general level of price, etc.
3.	Main issue is allocation of resources and price determination.	3.	Main issue is income level employment and income.
4.	Primary tool is demand and supply of certain good or factor	4.	Primary tool is aggregate supply and aggregate demand of economy itself.
5.	Focuses on solving its main issue like what? How? and to whom? to produce a certain good within an economy.	5.	Focuses on solving its main issue of full resource employment within an economy.
6.	Discusses the way of equilibrium of producer, industry or consumer is attained	6.	Concerns with determining equilibrium of inflation, unemployment, employment supply, etc. and income level.
7.	Examples: individual savings, income, commodity price determination, output of individual producers, etc.	7.	Examples: national savings, national income, aggregate supply and demand, general level of prices, unemployment, inflation, etc.

How macro and micro-economics are inter-related?

Microeconomics is hugely depended on activities of macro level of economy. For instance, interest rate, price, profit rate, individual income, etc., are all known as microeconomic factors, yet they hugely depend on behavior of macroeconomic measures. Interest rates, price level, wages all individual aspects are determined by aggregate demand and aggregate supply not just by individual supply and demand. The same with profit of income highly depends on aggregate demand, nature of market, general price

level and national income within an economy. These indicators, including price level, national income and others are affected by fluctuations of macroeconomic issues. Therefore, changes in macroeconomic determinants effect the changes in microeconomic aspects and vice versa. On the other hand, macroeconomics, being the study of micro units of economy, examines the individual sectors as whole. National output and income can be considered as the sum of output and income of whole population and companies. Price level is calculated by assuming appropriate prices of commodities within a country in

a fiscal year. Some theories of macroeconomics are modeled from theories of microeconomics. For example, behavior of firms and consumers make up the total investment and consumption functions. Thus, both decisions made on macroeconomic level significantly impact microeconomic level and behavior of individual households and firms; the same decisions, income, and demand and supply on micro level make up the macroeconomic metrics.

Conclusion

As to conclude, let's once again revise that macroeconomics and microeconomics differ from each other to some extent. While microeconomics mainly concerns with individual units of economy such as individual income, individual person, individual wage, individual saving, individual choices, consumer behavior and supplier behavior, macroeconomics looks at the sum of these individual components, where all aspects of economy are assumed to aggregate and instead of individual income or savings, it looks at national income, savings, wages, and including at taxes, inflation, unemployment, etc. Therefore, these economic approaches relate each other and depend significantly. To remain relevant to global economic conditions, government makes some policies, which are the results of assumptions and conclusions made on microeconomic level, and the same behavior of individual producers, households, etc. impact on macroeconomic level. This relationship indicates the close relationship between macro and microeconomics and how they are complimentary to each other through decision making processes.

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