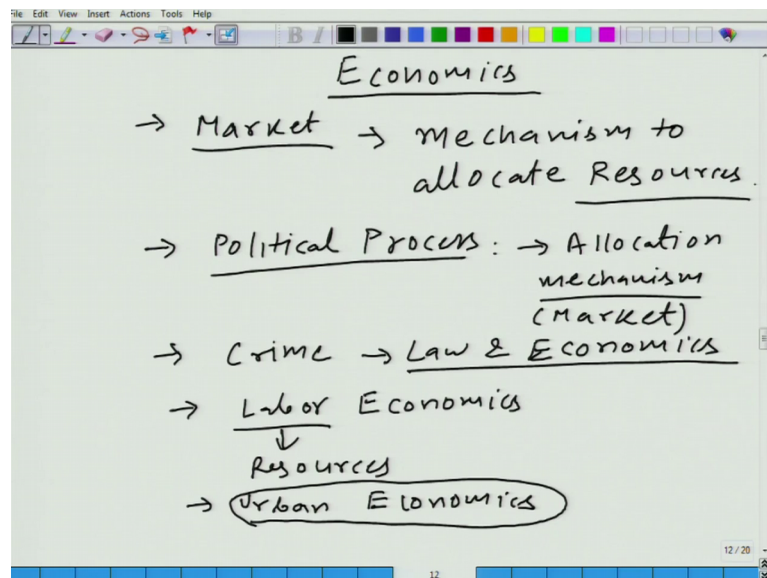


An Introduction to Microeconomics
Prof. Vimal Kumar
Department of Economic Sciences
Indian Institute of Technology, Kanpur

Lecture – 06
Branches of Economics

Now, let us look at economics.

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We have looked at the definition. Now let us look at the what do we study in economics, we all know that we study market in economics. Why do we study market? The reason that we study market is that; this is probably one of the most prevalent form of most prevalent mechanism to allocate resources. What is to be studied in economics? We study political process, you may some of you may be wondering. Why do we study political process in economics? Wouldn't it be a topic in political science?

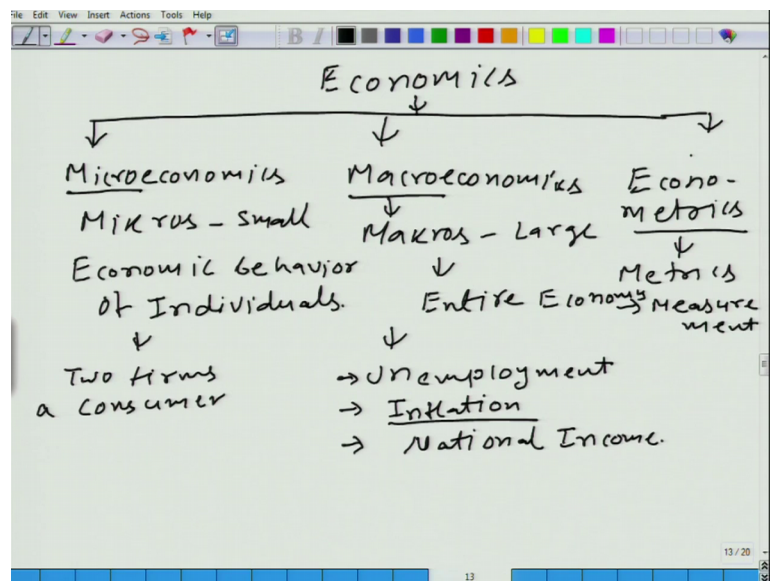
It is, but it is also a topic in economics. The reason is we study political process, because political process affect a allocation mechanism. It affects through taxation, through aggregation of preferences, these terms if it is not clear to you, do not worry about it as we progress in this course you would learn these terms. So, but the thing is the political process affects the allocation mechanism. Namely here market. That is why we study political process in economics. We study let us say crime in something called law and economics. Why do we study it? Should not it be a topic of law? It is a topic of in law.

But also, we study a particular aspect of crime here in economics. For example, let us say theft. It is illegal mean of allocating resources. But nevertheless, it is mean of allocating resources. That is why we study it in law and economics. Similarly, there are so many branches I can go on saying let us take 1 or 2 more, and then as you progress you would learn about different topics in economics.

What we have labour economics. Labour as we have seen is one of the most important resources. So, that is why we study in economics. We have urban economics. Here we talk about city, how the origin of urban life, how does urban economy work. So, why do we study here? Urban economics in economics, because again urban agglomeration are nothing but to it helps a allocation of resources. That is why we study urban economics in economics.

So now let us rather than going one by one through different fields of economics, let us look at the broad fields of economics. What are these broad fields?

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We can say that it has 3 main branches. The first is microeconomics; that is, what we are supposed to study in this course. Then we have macroeconomics, and third is statistics. Or let me use the specific name that we economists use. It is not exactly statistics, but what we have here is econometrics. Now let us pay attention to this world micro.

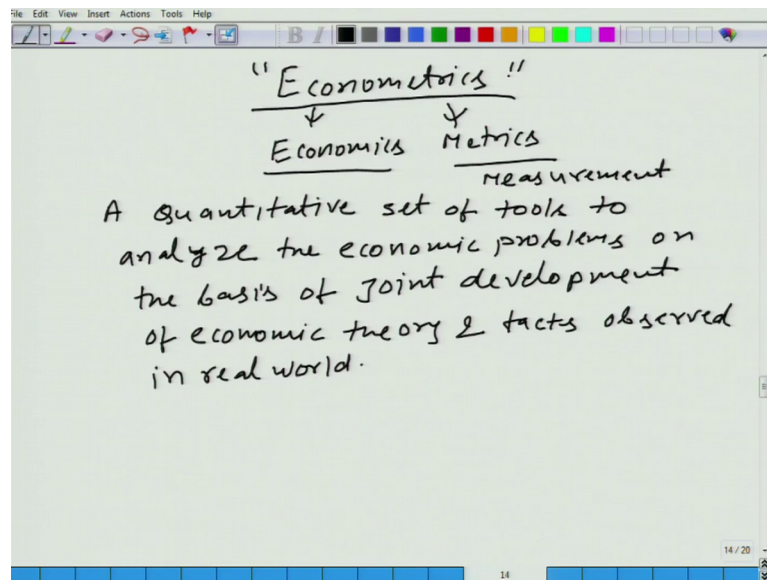
It is coming from Greek word micros; which means, small and here it is macro. Macros, the word here the Greek word here is macros. And it means large, and here metrics. It relates to measurement. So, here in microeconomics, we study economic behavior of individuals. So, economic behavior of; in macro economics we study economy as a whole, an entire economy we study the economic question pertaining to entire economy. So, let me write here, entire economy. So, let me just first concentrate on micro economics as well as on macro economics.

So, here the kind of question that we talk about when 2 individuals are interacting. Or when a group of individuals are interacting. Our decision units are always one individual. We always talk about one how an individual has reached to this particular decision. And if we are handling question in this particular fashion, then we are talking about a topic in microeconomics. But when we have we are aggregating the whole economy, we are not talking about individuals interaction, we are talking about how the whole economy is performing.

Then we are talking about a topic in macroeconomics. For example, unemployment is about it is not a micro, it is not about one individual, it is about the whole economy, how the whole economy is performing. So, unemployment is of course studied in macroeconomics. Similarly, if you look at inflation. By the way what is inflation? Inflation higher inflation means, higher price rise; it is a concept that relates to price overall level of price rise in economy.

So, when we are talking about to inflation, we study it in macroeconomics. When we are talking about the national income, then we are talking about macroeconomics. How about here? When 2 forms are interacting, or when consumer is when a consumer a consumer is buying some product, then we consider those questions in microeconomics.

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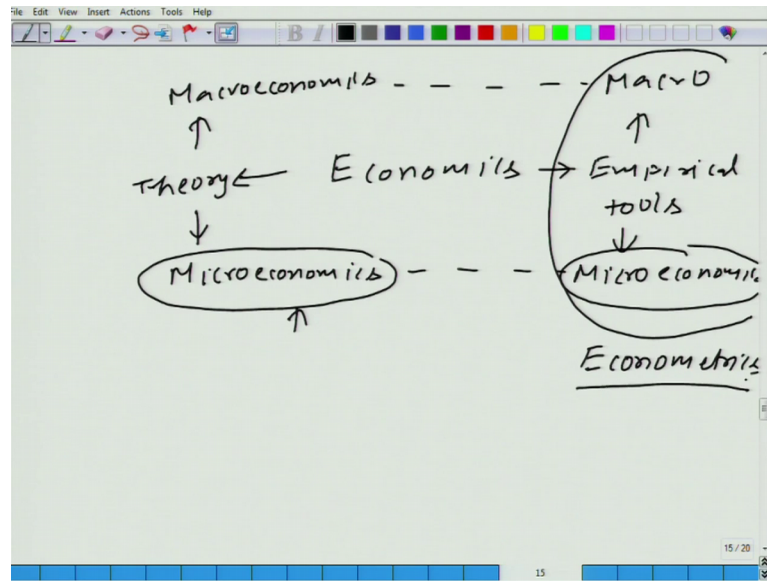


Let us now talk about econometrics. I already told you, that here you can clearly say this is coming from economics, and this is coming from metrics. It is here, it means measurement, measurement of economic variable. That is the broad name, but what do we mean by econometrics? Econometrics is basically a quantitative set of tools to analyze the economic problems on the basis of joint development of economic theory, and facts observed in real world.

So, when we are talking about econometrics, we are talking about a quantitative sets of a quantitative set of tools. To analyze an economic problem and how do we analyze? We bring economic theory, as well as the data that we collect from the real world together, using the data using some statistics tool, we form some statistic we bring in statistics tools economic theory together and that is how we get econometric principle. We collect data we bring these things together using the data we verify our econometric model. And that is why we have econometrics is very, very important branch of economics. It helps us verify the theory developed in micro and macroeconomics.

So, although we are not going to talk about econometrics more in this course, but the bottom line is that econometrics is used to verify to test micro economic as well as macroeconomic theories.

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So, one can say here let us look at it one other way to describe economics is; it has 2 we can say one is theory, and second is empirical tool. And even in theory we have 2 branches. Microeconomics, and here we have macroeconomics. And similarly, we can have here 2 branches, microeconomics and macro in short. So, we can say these 2 are related. Microeconomics in theory and microeconomics in empirical tool they are related. Here we are developing some theory, here we are developing some empirical tool. To test theory developed here. Similarly, the same thing is true for macroeconomics. So, here these this part belong to econometrics.