

What is Microeconomics?

Microeconomics is a field of economic study that focuses on how an individual's behavior and decisions affect the supply and demand for goods and services. For the purpose of microeconomics, the actions of individuals, households and businesses is crucial, unlike the study of macroeconomics, which focuses on national and international economic trends. Despite the differences between the two fields, however, micro-level trends and the study of microeconomics are considered the basis of modern macroeconomics.

Microeconomics includes a number of specialized areas of study. Key applied microeconomics fields are price theory and labor economics. While each of these subfields relies on various theories and tools, all of them fall back to the theory of supply and demand. Theoretically, all markets are perfectly competitive, with supply and demand driving prices. However, in practice, individuals and groups can directly affect the supply and demand of products and services.

Surprisingly simple questions fall into the field of microeconomics. For instance, an employee might receive a raise. Does that raise cause the employee to increase or decrease their work hours? Not all employees will make the same decision, making this question a focus for microeconomics study, which assumes all decisions must be rational.

Another key area of microeconomics is the study of market failure. Market failure is not the assumption that a market has ceased functioning; instead it is a situation in which a market is inefficient, whether in organizing production or allocating goods and services, usually to an extreme point. These market failures can occur because of monopolies, a lack of information for either buyers or sellers and other issues.

Opportunity cost is also a main concern in microeconomics. While difficult to measure in macroeconomics, opportunity cost can be clearly demonstrated in microeconomics: an individual can point to specific opportunities that become unavailable as they use their resources for other purposes. For instance, an employee may need to decide to take a class that improves her chances for promotion over taking a vacation.

<http://www.wisegeek.com/what-is-microeconomics.htm>