**What Is Economics?**

Economics is a social science concerned with the production, distribution, and consumption of goods and services. It studies how individuals, businesses, governments, and nations make choices on allocating resources to satisfy their wants and needs, trying to determine how these groups should organize and coordinate efforts to achieve maximum output.

Economics can generally be broken down into macroeconomics which concentrates on the behavior of the aggregate economy, and microeconomics which focuses on individual consumers and businesses.

**What Is Macroeconomics?**

Macroeconomics is a branch of economics that studies how an overall economy—the market systems that operate on a large scale—behaves. Macroeconomics studies economy-wide phenomena such as inflation, price levels, rate of economic growth, national income, gross domestic product (GDP), and changes in unemployment.

Some of the key questions addressed by macroeconomics include: What causes unemployment? What causes inflation? What creates or stimulates economic growth? Macroeconomics attempts to measure how well an economy is performing, to understand what forces drive it, and to project how performance can improve.

Macroeconomics deals with the performance, structure, and behavior of the entire economy, in contrast to microeconomics, which is more focused on the choices made by individual actors in the economy (like people, households, industries, etc.).

**Understanding Macroeconomics**

There are two sides to the study of economics: macroeconomics and microeconomics. As the term implies, macroeconomics looks at the overall, big-picture scenario of the economy. Put simply, it focuses on the way the economy performs as a whole and then analyzes how different sectors of the economy relate to one another to understand how the aggregate functions. This includes looking at variables like unemployment, GDP, and inflation. Macroeconomists develop models explaining relationships between these factors. Such macroeconomic models, and the forecasts they produce, are used by government entities to aid in the construction and evaluation of economic, monetary and fiscal policy; by businesses to set strategy in domestic and global markets; and by investors to predict and plan for movements in various asset classes.

Given the enormous scale of government budgets and the impact of economic policy on consumers and businesses, macroeconomics clearly concerns itself with significant issues. Properly applied, economic theories can offer illuminating insights on how economies function and the long-term consequences of particular policies and decisions. Macroeconomic theory can also help individual businesses and investors make better decisions through a more thorough understanding of what motivates ot, andarties and how to best maximize utility and scarce resources.

**What Is Microeconomics?**

Microeconomics is the social science that studies the implications of incentives and decisions, specifically about how those affect the utilization and distribution of resources. Microeconomics describes the pricing of products and money, causes of different prices to different people, how can provide more or less benefit to producers, consumers and others, and how individuals best coordinate and cooperate. Generally speaking, microeconomics provides a more complete and detailed understanding than macroeconomics.

**Understanding Microeconomics**

Microeconomics is the study of what is likely to happen (tendencies) when individuals make choices in response to changes in incentives, prices, resources, and/or methods of production. Individual actors are often grouped into microeconomic subgroups, such as buyers, sellers, and business owners. These groups create the supply and demand for resources, using money and interest rates as a pricing mechanism for coordination.

**The Uses of Microeconomics**

As a purely normative science, microeconomics does not try to explain what should happen in a market. Instead, microeconomics only explains what to expect if certain conditions change. If a manufacturer raises the prices of cars, microeconomics says consumers will tend to buy fewer than before. If a major copper mine collapses in South America, the price of copper will tend to increase, because supply is restricted. Microeconomics could help an investor see why Apple Inc. stock prices might fall if consumers buy fewer iPhones. Microeconomics could also explain why a higher minimum wage might force The Wendy's Company to hire fewer workers.

**Basic Concepts of Microeconomics**

The study of microeconomics involves several key concepts, including (but not limited to):

* **Incentives and behaviors:** How people, as individuals or in firms, react to the situations with which they are confronted.
* **Utility theory:** Consumers will choose to purchase and consume a combination of goods that will maximize their happiness or “utility,” subject to the constraint of how much income they have available to spend.
* **Production theory:** This is the study of production—or the process of converting inputs into outputs. Producers seek to choose the combination of inputs and methods of combining them that will minimize cost in order to maximize their profits.
* **Price theory:** Utility and production theory interact to produce the theory of supply and demand, which determine prices in a competitive market. In a perfectly competitive market, it concludes that the price demanded by consumers is the same supplied by producers. That results in economic equilibrium.