INTRODUCTION TO MICROECONOMICS I

ECO201/LAG-PRM211

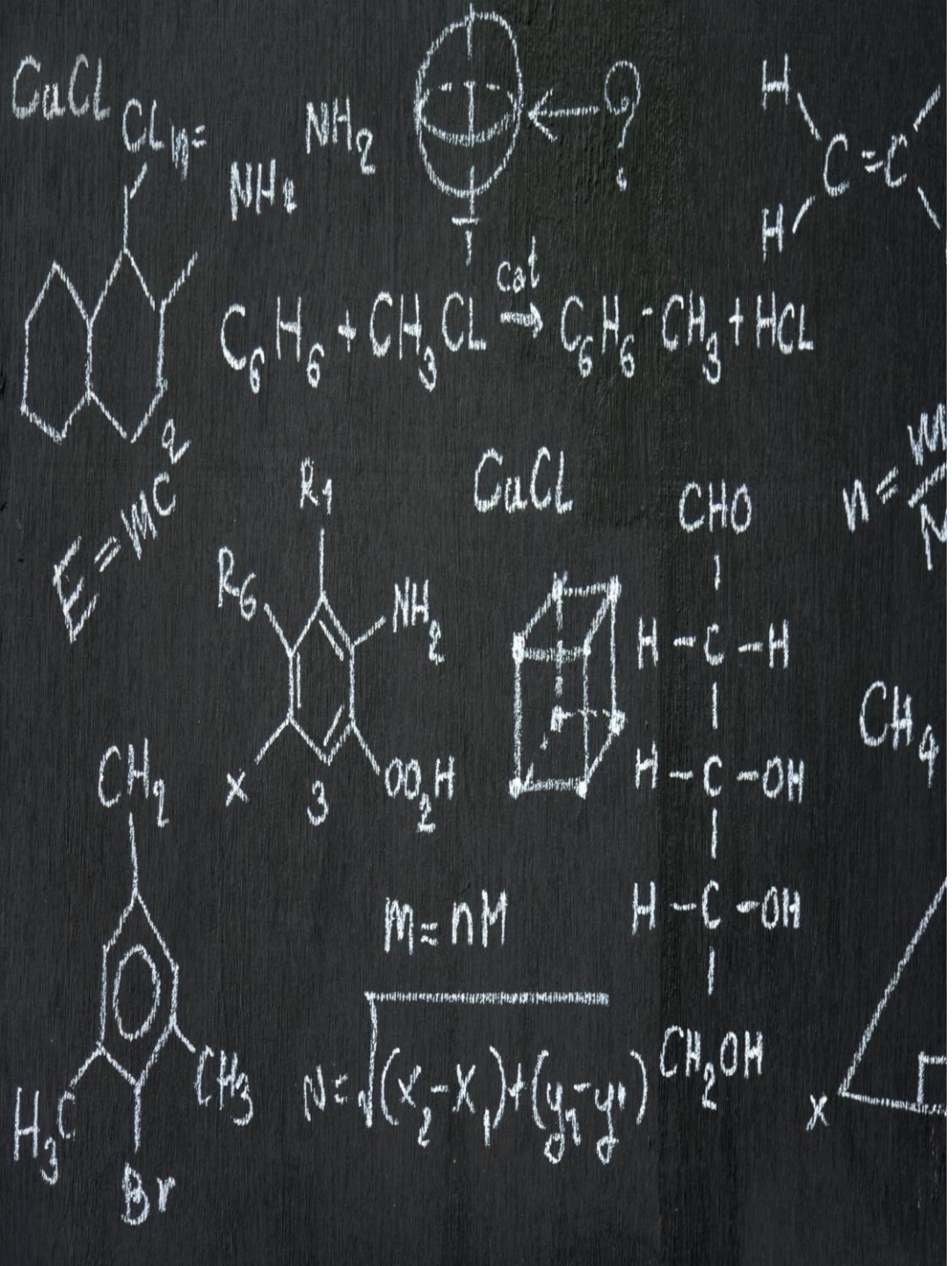
FIRST SEMESTER

2025/2026 ACADEMIC SESSION



Chapter One

Understanding the Foundational Concepts of Microeconomics



Outline

1.1 Introduction to Microeconomics

1.2 Nature, scope, and relevance of Microeconomics

1.3 Basic concepts and partial equilibrium analysis

1. Introduction to Microeconomics

1.1 Define microeconomics

1.2 The role of microeconomics in understanding individual and firm behavior

What is Microeconomics?

Microeconomics is the branch of economics that studies the behavior of **individual economic agents**, such as **households**, **firms**, and **consumers**, and how they make decisions about the **allocation of scarce resources**. It focuses on **specific markets** and the **mechanisms of supply and demand** to determine prices, production, and consumption of goods and services.

Primary Roles of Microeconomics

- Microeconomics helps **understand** how **individuals make choices** about what goods and services
- Microeconomics helps **predict demand patterns**
- Microeconomics examines how **firms decide what to produce**, how much to produce, and at what cost.
- Microeconomics explains how **prices are determined**
- Microeconomics studies how **different market structures affect pricing** and output decisions.
- Microeconomics helps understand how **scarce resources are allocated**.
- Microeconomics assesses how **individuals and firms respond to taxes**, subsidies, price controls, or regulations
- Microeconomics identifies **situations where markets fail** to allocate resources efficiently

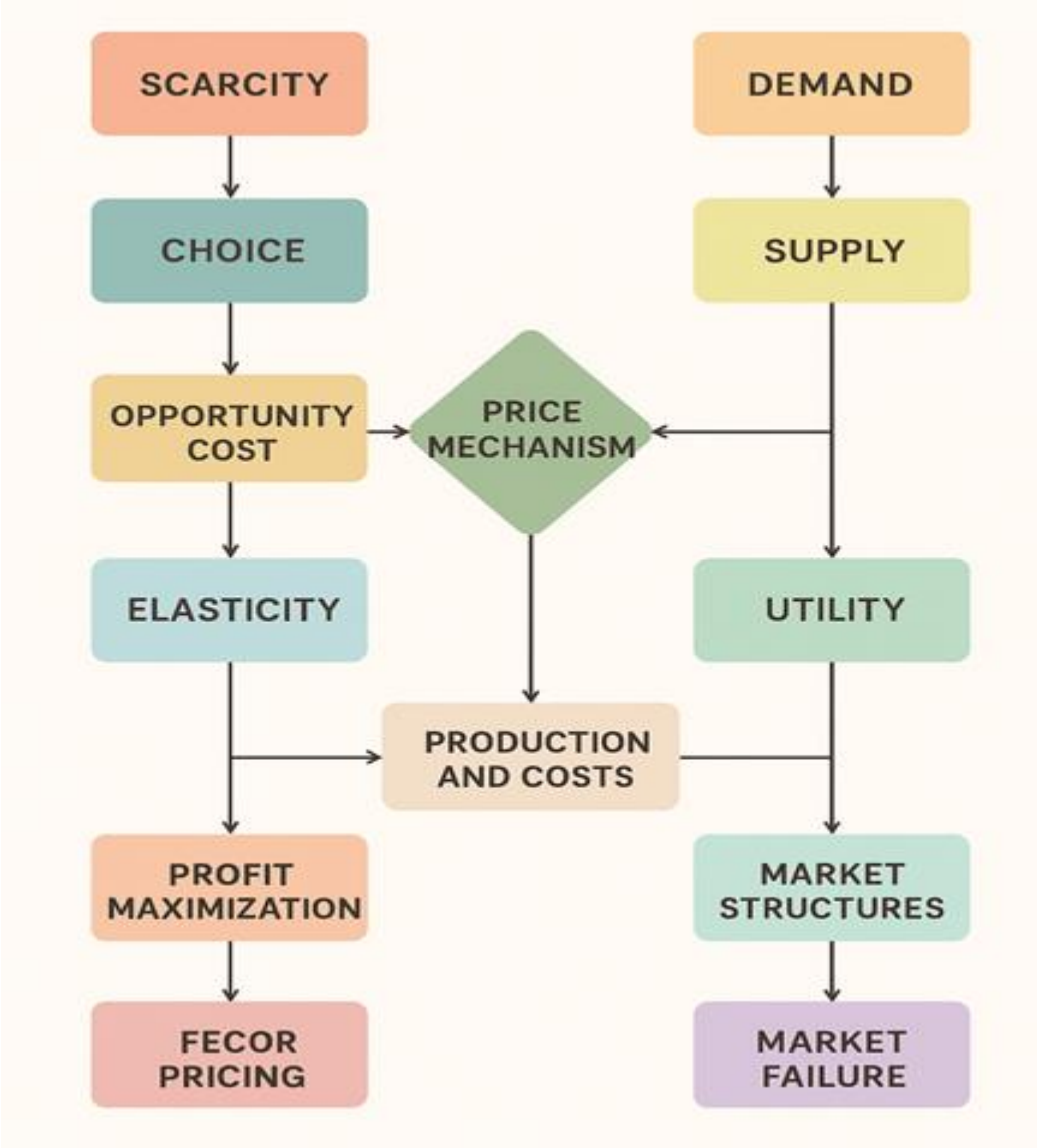
Nature, Scope, and Relevance of Microeconomics

Relevance

- ❑ Understanding Consumer and Firm Behavior
- ❑ Efficient Resource Allocation
- ❑ Price Determination
- ❑ Decision-Making Tool
- ❑ Understanding Market Structures
- ❑ Policy Formulation and Evaluation
- ❑ Predicting and Managing Market Failures

Scope

- ❑ Consumer Behavior
- ❑ Theory of Demand and Supply
- ❑ Production and Costs
- ❑ Theory of Firm and Market Structure
- ❑ Factor Pricing and Distribution
- ❑ Welfare Economics
- ❑ Market Failures and Government Intervention



Basic Concepts in Microeconomics