Principles of Microeconomics

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Author Note

Law of Demand, Relation between Microeconomics and Macroeconomics

Principles of Microeconomics

Microeconomics is the science that focuses on the consequences of human actions, explicitly about how those choices affect the consumption and distribution of resources. Microeconomics shows how and why different commodities have different values, how individuals make more effective decisions, and how individuals best coordinate and cooperate.

**Law of Demand**

The law of demand shows the relationship between the quantity of goods demanded and its price. In the words of Alfred Marshall: **“the amount demanded increases with a fall in price, and diminishes with a rise in price”** (Marshall, 1890)**.** In short, it shows an inverse relationship between price and demand. The law mentions the course in which quantity changes with a change in price.

**Examples in the real world**

There are numerous examples regarding the law of demand that can be observed around us. Let us take the examples of the holiday season shopping spree. On occasions like Black Friday, we experience a lot of increase in demand for commodities as huge discounts on pricing are offered by different companies. Another example is tickets for a sporting event. If the teams are popular, or it is a major sporting event, the demand for tickets is always high, which results in the increased price of tickets.

## Demand curve

A demand curve is a diagram that shows the quantity concerning price at regular intervals. Please note that the terms demand curve is also used interchangeably with the demand schedule as the former is the graphical representation of the latter (Lai, 2002).

**Relation between Macroeconomics and Microeconomics**

Macroeconomics is a branch of economics that deals with the behavior, structure, and performance of an economy in total. This includes global, national and regional economies.

If we dive deeper, we can observe that microeconomics and macroeconomics are co-dependent on each other. The concepts regarding the actions of some macroeconomic markers are resultant of theories of individual behavioral patterns. For example, the theory of investment, which is an integral part of macroeconomic theory, is the resultant of the study of the behavior of individual entrepreneurs. This theory summarizes that an individual entrepreneur in his investments is overseen by the probable rate of profit on one side and the amount of interest on the other. And so is the collective investment function. Similarly, the theory of aggregate consumption function is grounded upon the actions of individual customers (Mankiw, 1993).

If we look closely, we can observe that the collective demand and the collective supply curve is based on the principle of demand and supply curve, specified in microeconomics. Likewise, we can see that many of the concepts like GDP, GNP, and numerous concepts are the largescale versions of the law defined in the discipline of microeconomics (Howitt, 2002). In short, we can witness that the large-scale variables are based on the behavior patterns of individual behaviors. But should be noted that that behavioral patterns of all macroeconomic relationships conform with behavior patterns of individuals composing them.

# References

Howitt, P. (2002). *Macroeconomics: Relations with Microeconomics.*

Lai, L. W.-C. (2002). *The Power of Supply and Demand: Thinking Tools and Case Studies for Students and Professionals.*

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Marshall, A. (1890). *Principles of Economics.*