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Introduction to Economics

1.2.4 Interdependence of Microeconomics and Macroeconomics

Table 1.1 summarises the difference between microeconomics and macroeconomics.

Table 1.1 **Difference between Microeconomics and Macroeconomics**

Basis	Microeconomics	Macroeconomics
1. Definition	**1.** Microeconomics is that part of economic theory which studies the behaviour of individual units of an economy.	**1.** Macroeconomics is that part of economic theory which studies the behaviour of aggregates of the economy as a whole.
2. Tools of Analysis	**2.** Demand and Supply.	**2.** Aggregate Demand and Aggregate Supply.
3. Main Objective	**3.** It aims to determine price of a commodity or factors of production.	**3.** It aims to determine income and employment level of the economy.
4. Basic Assumptions	**4.** It assumes all the macro variables to be constant, *i.e.*, it assumes that national income, consumption, saving, etc. are constant.	**4.** It assumes that all the micro variables, like decisions of households and firms, prices of individual products, etc. are constant.
5. Other Name	**5.** It is also know as 'Price Theory'.	**5.** It is also known as 'Income and Employment Theory'.
6. Examples	**6.** Individual Demand, Firm's Output.	**6.** National Income, National Output.

It is difficult to demarcate or differentiate between micro and macro economics. **What is macro from an economy's point is micro in the context of the world.** It is difficult to say which is more important. Both have their own significance. According to Prof. Samuelson, knowledge of both is absolutely vital and there is no competition between macro and micro economics. **Both are complementary and should be fully utilised for proper understanding of an economy.**

1.3 POSITIVE OR A NORMATIVE SCIENCE

1.3.1 Economics as a Positive Science

Positive economics deals with what is or how an economics problem facing a society is actually solved. **Robbins** held that economics was purely a positive science. According to him, economics should be **neutral** or **silent** between ends, *i.e.*, there should be no desire to learn about ethics of economic decisions.

In other words, in positive economics we study human decisions as ***facts which*** can be ***verified with actual data***. *Examples* of positive economics are:

(*a*) India is an overpopulated country.
(*b*) A fall in the price of a good leads to a rise in its quantity demanded.
(*c*) Prices have been rising in India.
(*d*) Minimum Wage Law increases unemployment.
(*e*) A profit maximising firm will set its price where marginal revenue is equal to marginal cost.
(*f*) Air is a mixture of gases.
(*g*) Increase in real per capita income increases the standard of living of people.

1.3.2 Economics as a Normative Science

Normative economics deals with what ***ought to be*** or **how** an economic problem ***should be solved***. **Alfred Marshall** and **Pigou** have considered the normative aspect of economics. They maintain that economics is a normative science as it prescribes that course of action which is desirable and necessary to achieve social goals.

In other words, in normative economics there is no reservation on passing value judgement on moral rightness or wrongness of things. Normative economics gives prescriptive statements. *Examples* of normative economics are:

(*a*) Government *should* guarantee a minimum wage for every worker.
(*b*) Government *should* stop Minimum Support Price to the farmers.
(*c*) India *should* not take loans from foreign countries.
(*d*) India *should* spend more money on defence.

(*e*) Rich people *should* be taxed more.

(*f*) Free education *should* be given to the poor.

Tabe 1.2 summarises the differences between positive and normative economics.

Table 1.2 **Difference between Positive and Normative Economics**

Positive Economics	Normative Economics
1. It expresses what is.	1. It expresses what should be.
2. It is based on cause and effect of facts.	2. It is based on ethics.
3. It deals with actual or realistic situation.	3. It deals with idealistic situation.
4. It can be verified with actual data.	4. It cannot be verified with actual data.
5. In this value judgements are not given. It is neutral between ends.	5. In this value judgements are given.
6. It deals with how an economic problem is solved.	6. It deals with how an economic problem should be solved.
7. Economists of positive school are Adam Smith and his followers.	7. Economists of normative school are Marshall, Pigou, Hicks, Kaldor Scitovsky.
8. Observe these examples:	8. Compare these examples:
(*a*) What determines the price rise?	(*a*) What is a fair price rise?
(*b*) Government has adopted policies to reduce unemployment.	(*b*) Unemployment is worse than inflation.
(*c*) The rate of inflation in India is 6 per cent.	(*c*) The rate of inflation should not be more than 6 per cent.
(*d*) Chemistry.	(*d*) Ethics.

1.3.3 Interdependence of Positive and Normative Science

In reality, economics has developed along both positive and normative lines. Both these aspects have grown inseparably. *The role of an economist is not only to explain and explore* (*i.e.*, positive aspect) but *also to admire and condemn* (*i.e.*, negative aspect.) This role of an economist is essential for a healthy and rapid growth of an economy. *Examples* of statements which contain both positive and normative economics are:

(*a*) A rise in the price of a good leads to a fall in its quantity demanded; therefore, Government should check rise in prices.

(*b*) Rent Control Act provides accommodation to the needy people; therefore, the Act should be honestly implemented.

(*c*) Indian economy is a developing economy, the Government *should* make it developed through correct planning.

In the above three *examples,* the first part of the statement is positive giving facts and the second part is normative based on value judgements.