

IMPORTANCE AND USES OF MICRO ECONOMICS

1. Micro economics tells us how a free private enterprise economy operates.
2. It tells us how the goods and services produced are distributed among the various people for consumption through price mechanism. It explains the conditions of efficiency in consumption and production.
3. It suggests suitable policies to promote economic efficiency and welfare of the people. Therefore it has a normative role.
4. It is applied to the various branches of economics like public finance and international trade.

Limitations:

1. Micro economics is based on the unrealistic assumption of full employment.
2. What is true of an individual firm or industry may not be true of the economy as a whole. For example wage cutting in a firm may increase employment but a general wage cut results in reducing employment.