Compact

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# Microeconomics

## An Aspect of Development

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**Abraham, Akampurira: Microeconomics: An Aspect of Development. Hamburg, Anchor Academic Publishing 2015**
Original title of the thesis: Microeconomics: An Aspect of Development

Buch-ISBN: 978-3-95489-094-1
PDF-eBook-ISBN: 978-3-95489-594-6
Druck/Herstellung: Anchor Academic Publishing, Hamburg, 2015
Additionally: Business Management and Economics, Uganda, Dissertation, 2013

**Bibliografische Information der Deutschen Nationalbibliothek:**
Die Deutsche Nationalbibliothek verzeichnet diese Publikation in der Deutschen Nationalbibliografie; detaillierte bibliografische Daten sind im Internet über http://dnb.d-nb.de abrufbar

**Bibliographical Information of the German National Library:**
The German National Library lists this publication in the German National Bibliography. Detailed bibliographic data can be found at: http://dnb.d-nb.de

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# Chapter One

## 1.0. Introduction

Human beings have wants and they are naturally not self-sufficient. They therefore have to produce and exchange what they do not have with those who have what they want. Right decisions have to be made in regard to the quantities to produce and the prices to charge by firms. This is done through the demand and supply theory. Supply and demand in most economies face a lot of challenges. Supply challenges range from small firms with structural supply rigidities to huge firms that act as monopolists and cartels that charge exploitative prices on the consumers. These challenges affect the trading position of several economies in the international trade. Demand is rapidly increasing due to the rapid world increase in population. This paper will cover analysis of decisions of a firm, supply and demand of a commodity, price of a commodity and how the small economic groups and individuals affect the mentioned variables

## 1.1. Objectives of the study

The course will;

- Introduce students to important principles of microeconomics so that they are able to take important decisions in life.
- Enable students acquire principles that enable them to analyze day today problems.

# Chapter Two

## Definitions

## 2.0. Microeconomics

Microeconomics involves the study of economic actions and behavior of individuals and small groups such as consumers, producers as well as small economic units such as resource owners and business firms. It involves the analysis of the decisions made by individual consumers and firms. It mainly deals with the analysis of price determination which is an emphasis of the market arrangement. Maunder e tal (1996:14) explains that macroeconomics is the study of individual decision making by both individuals and firms.

Economics involves the study of how people and societies use scarce resources to satisfy their wants or needs out of scarce resources. Scarce resources include raw materials, labor, capital energy which aid production and finally fulfills the purpose of satisfying human wants. Society and individual wants include education, medical care, clean environment, and therefore a dire need to have resources to achieve these goals, which unfortunately are scarce. Maunder, e tal (1996 ), defines economics as the social science of studying human behavior and, in particular the way in which individuals and societies choose among alternative uses of scarce resources to satisfy wants. Scarce resources and unlimited wants lead man to resort to the basic principles of economics that include scarcity, choice and opportunity cost.

Scarcity implies that that there is always a fixed stock of resources that are relatively not enough to satisfy man's needs.

Choice refers to the ability of man to choose from the many alternatives what is best for him. Choice helps individuals or firms to take the right decision while it helps the government to make the appropriate decision and goes on to implement it.

Opportunity cost refers to the alternative sacrificed whenever choice is made. The concept of opportunity cost is important since the resources are not enough to satisfy man's wants at a particular time. During production and consumption, sacrifices are made so that alternative possibilities are foregone because society is faced with a challenge of scarce resources. Opportunity cost is progressively used in the process of exchange where maximum benefit is given up to physical resources such as land, labor and capital.

Scarcity is argued by economists to be a fundamental economic problem. To satisfy individual and society wants implies that they have to choose among alternatives available in order to overcome the fundamental economic problem of scarcity. Economics therefore entails of how choices are made. In line with this Gregory (2012, p 7) says that rational people systematically and purposefully do the best they can to achieve their objectives given the available opportunities. The people across the globe are struggling to work to be better out of the opportunities available to them. In our communities the majority of the people are now awake and therefore the importance of hard work towards poverty eradication and improvement of the welfare.

An economic good is always scarce. The cost of acquiring an economic good is zero. It provides satisfaction relatively scarce and marketable.