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Economics Essay

Microeconomics is not just a theory. People meet with it in their everyday life, even if they do not understand this fact. Knowledge of microeconomics helps to see microeconomic concepts in real life. In this essay, microeconomic concepts will be applied in the everyday life.

In the beginning, it is important to understand where it is possible to find microeconomic concepts in life. Microeconomics studies consumers, firms, individual markets and government regulation on individual markets. It is easy to realize that all of these subjects are present in everyday life. Consumers make decisions when they choose what good or service to buy. They try to maximize utility of goods or services they consume. In every market, there are supply and demand, and their equilibrium exists. Firms produce goods or services according to demand for them and the market price. Firms try to maximize their profit, and consumers want to spend less on goods and services. Government regulation on individual markets exists. Markets can be affected by externalities. For all those activities, microeconomic concepts can be implemented in order to understand them.



Circular-flow model is a basic economic model. It exists for any good or service. For example, households (individuals and families) offer their labor in the labor market (factor market). They are hired by a firm. In addition, household offer their land for lease or sell in the land market (factor market). Agricultural companies buy or lease it out. They produce agricultural products, for instance, different food. These products are sold in good markets (supermarkets, shops, exhibitions etc.). Households buy these products in order to maintain their life, health and ability to work and to offer their labor. Then, the cycle repeats.

Supply and demand concepts are important for every market. Their equilibrium should be maintained. Without equilibrium, producers and consumers would suffer. For instance, a firm offers ice-cream for sale. In fact, demand for it is seasonal. However, supply is made stable. In winter, demand is lower. Therefore, a firm would suffer losses, because not all ice-cream packages would be sold. However, in summer demand is higher. As a result, consumers would be dissatisfied, because it would not be enough ice-cream in the market.

Demand concept can be met often in everyday life. It is determined by many factors. For example, a person wants to buy a car, because an old car is outdated, though still works. Price is an important factor of demand. If it is very high, a person is likely to continue using an old car or to choose an alternative, because money availability is limited. Income influences demand, too. A person with high income is more likely to change a car often than a person with lower income. Prices of related goods should be kept in mind. Sometimes, it has more benefits to buy a motorcycle than a car, if the price of motorcycle is lower. Tastes influence demand. For example, if a person likes cars of a particular

brand, he/she is likely to buy them again and again, even if the prices for cars of other brands are lower.

Giffen goods are interesting concept, because demand for them is higher when the price rises. I saw an example of them in my life. Brandy clothes are Giffen goods. They show high status of their owner. In fact, their quality may be the same as the quality of common clothes. However, consumers buy them even with such high prices. They believe that high price and brand show their status in society. If the price for brandy clothes falls, the demand will fall, too, because clothes do not show status anymore.

Supply is the concept we meet every day. All people buy goods and services, and there is a particular supply for them. There are several factors that affect supply. Price is considered an important factor. The higher is the price, the higher is supply. For example, sellers offer bottled water in the market. It is natural that its price is higher in summer, because more people have to buy it due to heat. Therefore, supply will be higher in summer. Input prices affect supply, too. If it becomes more expensive to draw water, and the price remains the same, supply will fall, because the firms will get lower profits. Technology is important for supply. If a new technology that helps to produce water cheaper appears, supply increases, because firms will get higher profits. Expectations play an important role. For instance, weather forecast states that the weather will become much hotter in a week. If the weather is hot, price for bottled water increases, and firms' profits increase, too. Therefore, some firms will prefer to store some bottles produced now and sell them in a week in order to gain higher profits. Therefore, supply will be lower today and higher in a week.

Price elasticity of demand is common in everyday life, and it can be measured. In most cases, demand changes if the price changes, but these changes are different for different goods and services. Demand can be price inelastic. It means that demand changes slightly if the prices changes substantially. For instance, demand for bread is inelastic. Bread is a common good for everyday use. It can be rarely exchanged by other goods. For instance, price for bread duplicates. However, demand would not fall much. Most people consume bread, and they cannot imagine their lives without it. It is a staple good. Therefore, they would buy bread even for high price, usually giving up buying less necessary goods. Demand can be price elastic. If the price for candies duplicates, most consumers would buy them, and demand would fall significantly. Candies are not necessities. They can be easily exchanged for biscuits, for example.

Price elasticity of supply can be met in everyday life. Usually, supply changed with the price; however, these changes are different for different goods and services. Supply can be price inelastic. For instance, a firm produces cars. Price for them falls. However, supply will not fall as much as price, because it is quite difficult to shift production to other goods. Tools and technologies for car production are expensive, and it is hard to change them quickly. In addition, it is hard to use them for other goods production. Supply can be price elastic. For instance, a firm produces shorts. In autumn, price for them decreases and price for trousers increases. A firm can easily lower supply of shorts, because it is quite easy to produce more trousers and less shorts. Supply can be changed in higher volume than the price.

Microeconomics and microeconomic concepts are not just theoretical.

They are common in practice, and can be met in everyday life. Demand, supply, elasticity, circular flow etc. can be noticed in any economy. Microeconomic concepts can be useful. if one understands them, it will be easier for him/her to understand some facts and events in his/her life.