

Basic Concepts of Microeconomics

The study of microeconomics involves several key concepts, including (but not limited to):

- **Incentives and behaviors:** How people, as individuals or in firms, react to the situations with which they are confronted.
- **Utility theory:** Consumers will choose to purchase and consume a combination of goods that will maximize their happiness or “utility,” subject to the constraint of how much income they have available to spend.
- **Production theory:** This is the study of production—or the process of converting inputs into outputs. Producers seek to choose the combination of inputs and methods of combining them that will minimize cost in order to maximize their profits.
- **Price theory:** Utility and production theory interact to produce the theory of supply and demand, which determine prices in a competitive market. In a perfectly competitive market, it concludes that the price demanded by consumers is the same supplied by producers. That results in economic equilibrium.

References

- p. 538, Andreu Mas-Colell, Michael Whinston & Jerry Green (1995) *Microeconomic Theory*, Oxford University Press
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