

Microeconomics

Microeconomics is the study of how individuals and firms make decisions in a world of scarcity. It is a series of constrained optimizations.

Individuals and firms try to maximize how well off they are given some constraints. In order to maximize this, they have to deal with tradeoffs, which are driven by opportunity costs. An opportunity cost is the cost of every action (or inaction), which is some other action that could have been performed instead. Every action that can be performed has a second best alternative that could have been performed instead. In other words, nothing is free - everything has a cost, an opportunity cost.

According to the “invisible hand” view of the economy proposed by Adam Smith, individuals and firms acting in their own best interest will end up doing what is best for society, where “best for society” is defined as maximization of surplus, or the most stuff gets consumed that people value.

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