

# **Static and Dynamic Analysis in Microeconomics/Types of Microeconomics**

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# Types of Microeconomics

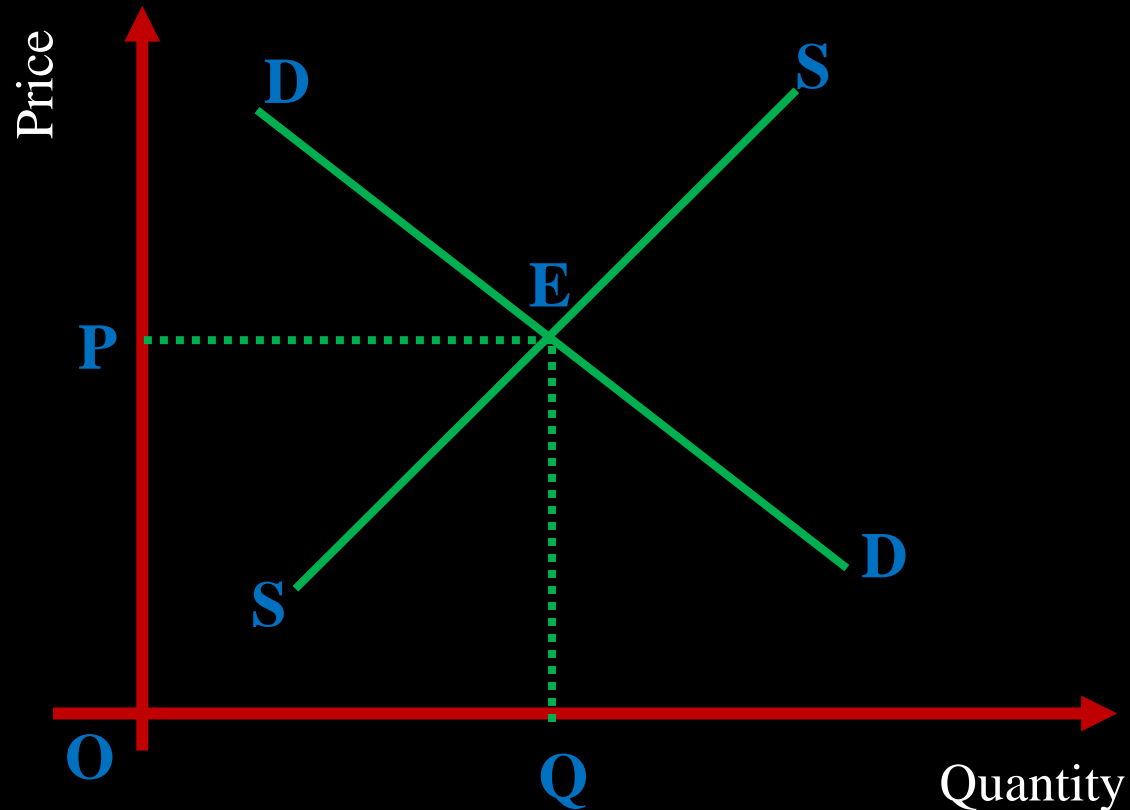
Based on consideration of time, microeconomic analysis can be divided into three types.

1. *Micro Statics/Micro Static Analysis*
2. *Comparative Micro Statics/Comparative Micro Static Analysis*
3. *Micro Dynamics/ Micro Dynamic Analysis*

# Micro Statics /Micro Static Analysis

- Micro statics is the *study of static equilibrium relationship between microeconomic variables* relating to a particular point of time.
- It has nothing to do with time and assumes that there will be no change in the relationship between microeconomic variables.
- For example, micro static analyses the condition of the equilibrium price of a commodity at a point in time.
- However, it does not deal with the process by which the microeconomic forces have reached the equilibrium position.

# Micro Statics /Micro Static Analysis...

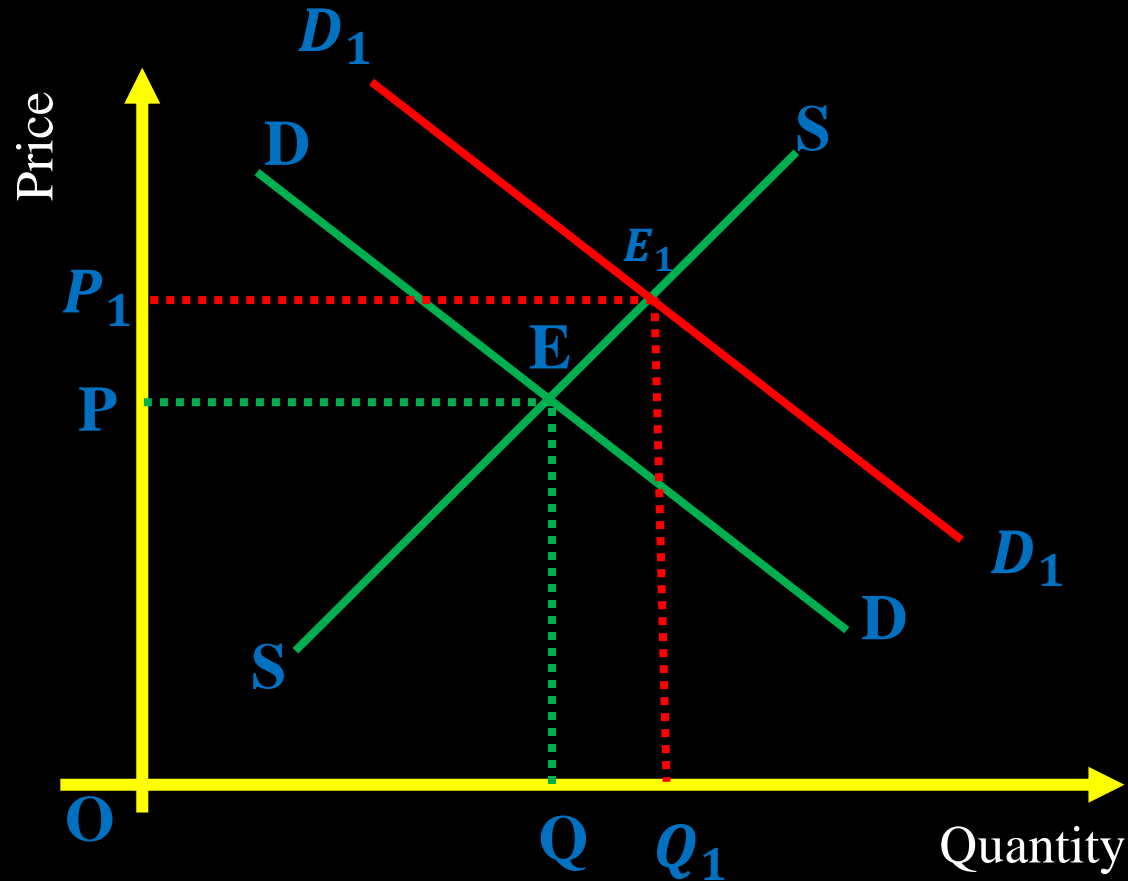


- DD and SS are demand and supply curve respectively
- Point **E** is the equilibrium point, where DD and SS curves are intersected each other
- OP and OQ are the equilibrium price and quantity respectively
- As price, demand, and supply are related to the same point of time, it is **STATIC ANALYSIS**

# Comparative Micro Statics

- It is the comparative study of different points of equilibrium between microeconomic variable at a different point in time,
- It compares one equilibrium position with another when there is formation of a new equilibrium point due to a change in the microeconomic variable,
- It **does not enlighten** the *happenings/undertakings in between the two points of equilibrium*, *causes for breaking the initial equilibrium*, and *the time was taken by the system* in the establishment of a new equilibrium after it was disturbed.

# Comparative Micro Statics...

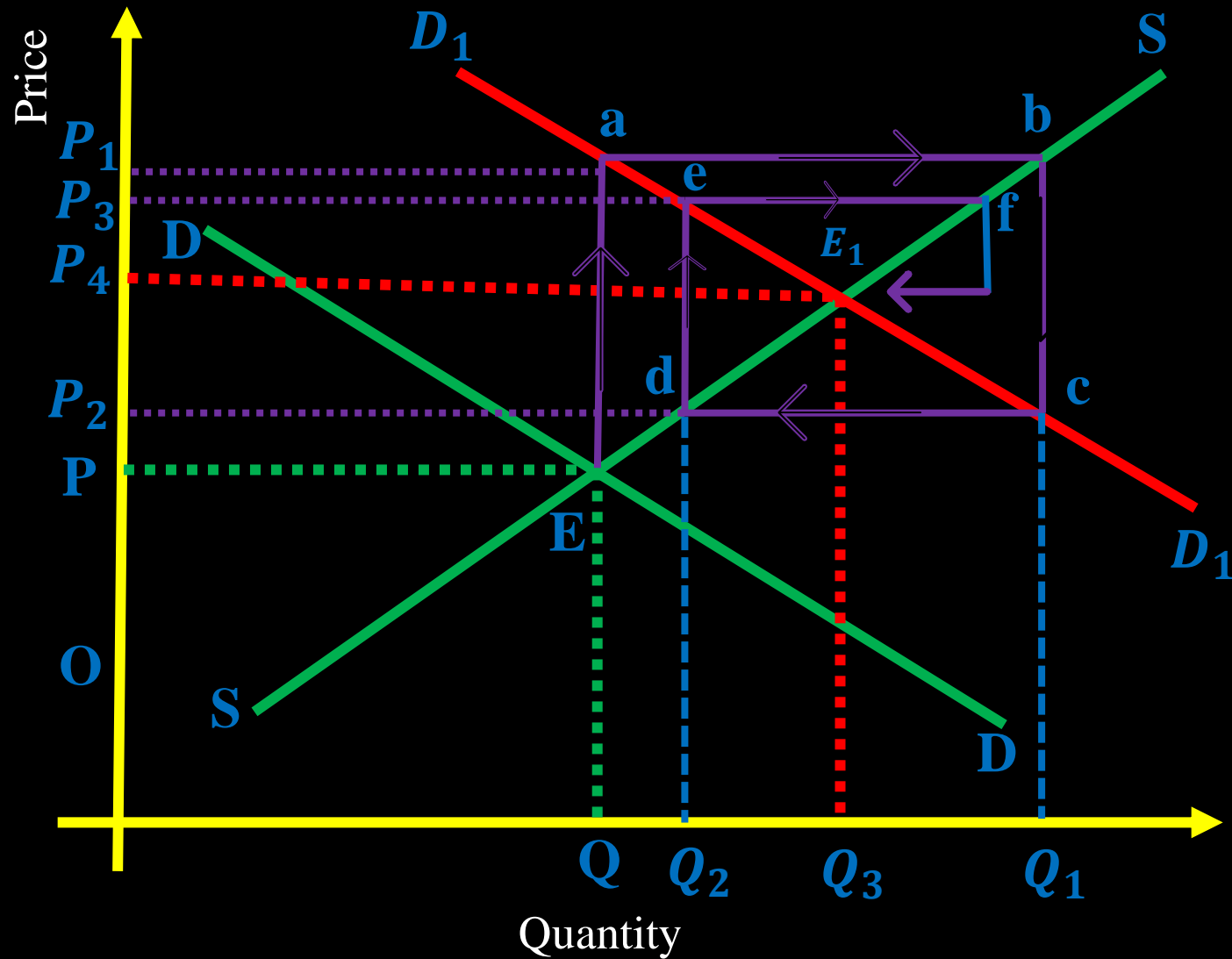


- Point  $E$  is the initial equilibrium point with  $OP$  and  $OQ$  equilibrium price and quantity respectively,
- Due to any reason, the demand curve shifts upward from  $DD$  to  $D_1 D_1$  and a new equilibrium is established at point  $E_1$
- At point  $E_1$ , the equilibrium price is  $OP_1$  and equilibrium quantity is  $OQ_1$ ,
- These two equilibrium points represent two different static analysis and the comparative study of two equilibrium is called COMPARATIVE MICRO STATIC.
- *It does not explain the process through which new equilibrium is obtained.*

# Micro Dynamics

- It is the study of the causes, process, happenings, time, and overall association through which the initial equilibrium position was disturbed and a new one is formed.
- It describes all types of changes and disequilibrium's occurred between two points of equilibrium positions,
- So it is the *analysis of the cause for breaking initial equilibrium, cause for establishing new equilibrium, and all sorts of changes occur in between two equilibrium.*
- Micro dynamic is thus the study of dynamic picture of economic relationships that existed in real life.

# Micro Dynamics...



- At the beginning when demand curve shifts from  $DD$  to  $D_1D_1$ :  $D > S$  and **price increase to  $P_1$  from  $P$** .
- At price  $P_1$  (higher price),  $S > D$  by 'ab' or ' $Q Q_1$ ' and this results fall in price to  $P_2$ .
- At price  $P_2$  (lower price),  $D > S$  by 'dc' or ' $Q_1 Q_2$ ' and this results rise in price to  $P_3$ .
- At price  $P_3$  (higher price),  $S > D$  by 'ef' and this results fall in price...
- This process continues in different steps a, b, c, d, e, f, ..... Until new equilibrium  $E_1$  is formed where the new equilibrium price  $P_4$  and new equilibrium quantity  $Q_3$  are determined.
- Thus, micro dynamics shows the process of adjustment from one equilibrium point to another breaking initial equilibrium and establishing a new equilibrium.