**Branches of Economics**

Our world is a finite place where people, both individually and collectively, face the problem of scarcity. Scarcity is the condition in which human wants are forever greater than the available supply of time, goods, and resources.

Because of scarcity, it is impossible to satisfy every desire. Pause for a moment to list some of your unsatisfied wants. Perhaps you would like a big home, gourmet meals, designer clothes, clean air, better health care, shelter for the homeless, more leisure time, and so on. Unfortunately, nature does not offer the Garden of Eden, where every desire is fulfilled. Instead, there are always limits on the economy’s ability to satisfy unlimited wants.

You may think your scarcity problem would disappear if you were rich, but wealth does not solve the problem. No matter how affluent an individual is, the wish list continues to grow. The condition of scarcity means all individuals, whether rich or poor, are dissatisfied with their material well-being and would like more. What is true for individuals also applies to society.

Economics is the study of how society chooses to allocate its scarce resources to the production of goods and services in order to satisfy unlimited wants. Society makes two kinds of choices: economy-wide, or macro choices and individual, or micro, choices. The prefixes macro and micro come from the Greek words meaning “large” and “small,” respectively. Reflecting the macro and micro perspectives, economics consists of two main branches: macroeconomics and microeconomics.

*Macroeconomics*

The old saying “Looking at the forest rather than the trees” fits macroeconomics. Macroeconomics is the branch of economics that studies decision making for the economy as a whole. Macroeconomics examins economy-wide variables, such as inflation, unemployment, growth of the economy, money supply, and national incomes. Macroeconomic decision making considers such “big picture” policies as the effect of balancing the federal budget on unemployment and the effect of changing the money supply on prices.

*Microeconomics*

Examining individual trees, leaves, and pieces of bark, rather than surveying the forest, illustrates microeconomics. Microeconomics is the branch of economics that studies decision making by a single individual, household, firm, industry, or level of government. Microeconomics applies a microscope to specific parts of an economy, as one would examine cells in the body. The focus is on small economic units, such as economic decisions of particular groups of consumers and businesses.

We have described macroeconomics and microeconomics as two separate branches, but they are related. Because the overall economy is the sum or aggregation of its parts, micro changes affect the macro economy, and macro changes produce micro changes.