

## Divisions of Modern Economic Theory

- 1 In modern economic thought, the problems associated with relative scarcity are commonly divided into micro- and macroeconomics. Microeconomics considers questions of allocation and distribution. Macroeconomics considers questions of stability and growth. The allocation problem (what to produce and how to produce) and the distribution problem (how real income is divided among the members of a society) generally fall under *microeconomic theory*. Microeconomic theory begins with an analysis of an individual and builds up to an analysis of society. The major theoretical tools of modern microeconomic analysis are demand and supply, which are applied at the level of the household, firm, and industry. A primary purpose of microeconomic theory is to explain the forces that determine relative prices, which economists believe are the essential forces in allocating resources and distributing income.
- 2 The other approach used in modern economics is *macroeconomic theory*. It begins with an analysis of society as a whole and works downward to the individual. Macroeconomics focuses on the stability and growth of an economy, utilizing aggregate variables for the entire economy: the level of income and employment, the general level of prices, and the rate of economic growth.
- 3 Modern *orthodox economic theory* consists of a body of knowledge that includes both micro- and macroeconomics. A history of economic thought must examine the development of concepts and tools that culminated in this body of knowledge.
- 4 Although mainstream modern economics focuses on the use of markets to cope with the problems associated with relative scarcity, there have always been economists who are interested in different aspects of society. A number of these writers are concerned with broader philosophical issues; often their writings do not fall neatly into any single field of study. Some writers straddle disciplines within the social sciences (economics and political science, for example); others lie between the social sciences and the humanities.

Indicate the reference of each pronoun circled in the text.

- |   |  |
|---|--|
| 1) Relative pronoun <b>which</b> in paragraph 1. <ol style="list-style-type: none"><li>a. analysis</li><li>b. demand and supply</li><li>c. divisions of economic theory</li></ol> | 4) Relative pronoun <b>who</b> in paragraph 4. <ol style="list-style-type: none"><li>a. markets</li><li>b. problems</li><li>c. economists</li></ol>  |
| 2) Relative pronoun <b>that</b> in paragraph 1. <ol style="list-style-type: none"><li>a. purpose</li><li>b. theory</li><li>c. forces</li></ol>                                    | 5) Demonstrative pronoun <b>these</b> (writers) in paragraph 4. <ol style="list-style-type: none"><li>a. modern economics</li><li>b. the writers of this book</li><li>c. the economists interested in different aspects of society</li></ol> |
| 3) Personal pronoun <b>it</b> in paragraph 2. <ol style="list-style-type: none"><li>a. macroeconomic theory</li><li>b. modern economics</li><li>c. income</li></ol>               |  |