

Cambridge IGCSE · Economics 0455 · Notes

Microeconomics and macroeconomics

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What you need to know

By the end of this topic you should be able to:

1. **Say what microeconomics is:** the study of the choices of individual decision makers (consumers, workers, firms) and of single markets, such as the market for one product or one type of worker.
2. **Say what macroeconomics is:** the study of the economy as a whole, such as total spending, total output, economic growth, inflation, unemployment and trade with other countries.
3. **Tell them apart:** sort any topic, change, indicator, decision or effect into one or the other.
4. **Name the decision makers in each:** households, workers and firms make microeconomic decisions; governments and central banks make macroeconomic decisions.

The whole topic is the same for every candidate (0455 has no Core/Extended split). It is a way of sorting the rest of the course: the syllabus sections on markets (the allocation of resources) and on microeconomic decision makers are microeconomics, and the section on government and the macroeconomy is macroeconomics.

Understand it

Two ways of looking at the same economy

Economics studies how scarce resources are used, and you can look at that from close up or from far away.

- **Microeconomics** ("micro" means small) looks **close up**: one household deciding what to buy, one worker choosing a job, one firm setting its price, one market such as the market for rice or for bus drivers.
- **Macroeconomics** ("macro" means large) looks **from far away**: the whole country (or the whole world) at once, adding up everyone's spending, output and jobs.

Think of a forest. Studying why one tree grows faster than its neighbour is micro; studying whether the whole forest is getting bigger is macro. It is the same forest, seen at a different scale.

What each one studies

Microeconomics	Macroeconomics
Demand and supply of one product	Total (aggregate) demand and spending in the economy
The price of one product, and why it changes	The general price level : inflation (demand-pull, cost-push) and deflation
Price elasticity of demand and supply	Gross Domestic Product (GDP) , real GDP, national income and output
A firm's costs, revenue, output and profit	Economic growth and recession
How a firm's cost per unit changes as it grows	The unemployment rate and employment in the whole economy
Forms of competition, monopoly	The balance of payments (exports and imports of the country)
Wages and demand for labour in one job or industry	Exchange rates and the money supply
Market failure, public goods, and policies aimed at one market	Government macroeconomic aims and fiscal, monetary and supply-side policy

A quick test: ask "**Is this about one part of the economy, or about all of it added up?**" One product, one firm, one industry, one group of workers: micro. Every product, every firm, every worker together: macro.

Watch the words "total" and "average"

Big-sounding words don't make something macro. "The **total** output of the shipbuilding industry" is still one industry, so it is **micro**. "**Average** earnings of airline pilots" is one group of workers, so it is **micro**. It only becomes macro when it covers the **whole economy**: total output of the country (GDP), the average price of everything people buy (the Consumer Prices Index, used to measure inflation), the unemployment rate of the whole labour force.

The same goes for size. A study of the national economy, or of the international (world) economy, is macroeconomics either way.

Who makes the decisions

	Decision makers	Examples of decisions
Microeconomic	Households and consumers	What to buy, how much to save, switching to a cheaper brand
	Workers (and trade unions)	Which job to take, whether to work overtime, bargaining for higher pay

	Decision makers	Examples of decisions
	Firms (producers, entrepreneurs, managers)	What to make and how much, what price to charge, how many workers to hire, where to locate
Macroeconomic	The government (for example the finance minister)	Tax rates, total government spending, borrowing, a minimum wage for the whole country
	The central bank (its governor)	Interest rates, the money supply, the exchange rate

Organisations that deal with the world economy, such as international trade bodies or those that measure development across countries, look at whole economies too, so they are on the macro side.

Governments can make micro decisions too

A government decision is macro when it is meant to change the **whole economy**: changing tax rates paid across the country, spending more in total (on any service, since it adds to total spending), changing interest rates or the money supply. These are **macroeconomic policies**.

But when a government acts on **one market** it is making a **microeconomic** decision: a price ceiling on rice, a subsidy for bus travel, a tax on sugary drinks, or rules that let new firms into a market run by a monopoly. So "the government did it" does not make it macro on its own; ask what it is aimed at.

One event, two kinds of effect

The same event can have both micro and macro effects. Suppose a country's biggest mine closes:

- **Micro effects:** the price of the mineral rises, the mine's owners lose profit, the miners lose their jobs and income, shops near the mine sell less. Each is about particular firms, workers or markets.
- **Macro effects:** the country's GDP falls, its unemployment rate rises, its exports fall and the balance of payments gets worse. Each is about the whole economy.

A question asking for "a macroeconomic impact" wants the whole-economy effect, even though the micro effects are true as well.

The two are linked

Macro totals are made of micro decisions added together:

one household, worker, firm or market (micro) $\xrightarrow{\text{add them all up}}$ the whole economy (macro)

If millions of households each decide to spend less (micro), total demand in the economy falls and growth slows (macro). In the other direction, a macro change such as higher interest rates changes what each household and firm decides. You study them separately to keep things manageable, but they describe the same economy.

Key facts and formulas

This topic has no formulas and no formula list in the exam. "Learn it" means you must remember it.

Fact	Status
Microeconomics: the study of individual decision makers (households, workers, firms) and single markets	Learn it
Macroeconomics: the study of the whole economy (total demand, output, growth, inflation, unemployment, the balance of payments)	Learn it
Micro decision makers: consumers/households, workers and trade unions, firms and their managers	Learn it
Macro decision makers: the government and the central bank	Learn it
One industry, one firm, one product or one group of workers is micro, even with "total" or "average" in front	Learn it
Inflation, unemployment rate, GDP, growth, exchange rates, money supply, interest rates, tax rates and total government spending are macro	Learn it
A government policy aimed at one market (maximum price, one product's tax or subsidy, competition policy) is micro	Learn it

How to do it

In the questions we have tagged for this topic (22 questions, 2021–2025), every one is a 1-mark multiple-choice concept question on Paper 1: there are no calculations and no written parts. They split into these kinds:

Question type	Questions
Multiple choice: classify a topic, change or indicator	14
Multiple choice: classify a decision or policy	5
Multiple choice: who makes a micro or macro decision	2
Multiple choice: the macroeconomic effect of an event	1

Four of the 22 ask which option is **not** micro (or **not** macro); read the question for the word "not" in bold.

1. Multiple choice: classify a topic, change or indicator (14 questions)

1. **Read which branch is asked for**, and whether the question says **not**.
2. **Label every option** "micro" or "macro" with the quick test: one product, firm, industry or group of workers is micro; the whole economy is macro.
3. **Pick** the one option that differs from the others (for "not" questions, the odd one out is the answer).

Variations you will meet:

- **"Which topic is studied in (or included in) macroeconomics?"** The right option is about the whole economy: a rise in the general price level, how fast national output grows, the share of the labour force without work, the value of the currency, the gap between the country's exports and imports. The wrong options are about one market: why one product's price moves, how a market reaches equilibrium, why one market fails, how one firm chooses its output.
- **"Which is included in microeconomics?"** The right option is about one decision maker or one market: how much of a snack one consumer buys, why a firm's cost per unit changes as it grows, how many rivals a firm faces, what it costs a factory to make one product.
- **"Which is not included in microeconomics?"** Look for the one whole-economy item, such as a rise in the general price level.
- **"Which is not a macroeconomic topic?"** Look for the one item about a single industry, such as the output of one country's shipbuilding industry. The trap is a large, national-sounding industry; it is still one industry.
- **A macroeconomic indicator** is a number that measures the whole economy: real GDP, the inflation rate, the unemployment rate. The price of fish, the pay of teachers or the costs of airlines are micro.
- **A relationship studied in macroeconomics** links two whole-economy measures, such as how fast national output grows and how fast the general price level rises. A café's output and its costs, the price of bread and the amount bought, or the pay of teachers and the number employed are micro.
- **Combination tables** (two columns, or "which combination has two microeconomic changes?"): label **both** entries in every row, then pick the row where both labels are right. A row can be half right, so don't stop at the first column. Macro is described by the whole economy; micro by particular markets or decision makers.
- **Two linked changes**, such as more demand for cocoa leading growers to hire more cocoa pickers: each is still about one market (cocoa, and the labour to pick it), so both are **micro**.

2. Multiple choice: classify a decision or policy (5 questions)

1. **Find who makes each decision.** A household, worker, trade union or firm: micro.
2. **For a government or central bank, ask what it is aimed at.** The whole economy (tax rates, total spending, interest rates, the money supply, the national minimum wage): macro. One market (a price ceiling on rice, a subsidy for bus travel, rules on one monopoly): micro.
3. **In a pair question** ("what are both macroeconomic decisions?"), both halves of the answer must pass.

For example, "a central bank raises interest rates / a government cuts the sales tax rate on all goods" is a pair of macro decisions; "a government cuts its total borrowing / a bakery chooses how many loaves to bake" is not, because the bakery's decision is micro.

Variations you will meet:

- **"What is a microeconomic decision?"** A shop cutting its prices in a sale, a family choosing a cheaper phone plan, a nurse moving to a better-paid hospital. Options where a government or central bank changes something for the whole economy are macro.

- **"What is not a microeconomic decision?"** The odd one out is the one a government or central bank makes for the whole economy, such as a cut in the money supply.
- **"Which economic activity is macroeconomics?"** A change to a tax paid across the economy, such as a new tax on all company profits, is macro; one family's shopping, pay in one trade or the world price of one metal are micro.
- **"What is an example of government macroeconomic policy?"** Changing interest rates (or the money supply, tax rates, total spending). A rent ceiling, a subsidy for one crop or rules for one industry are micro policies.

3. Multiple choice: who makes a micro or macro decision (2 questions)

1. Put each person on one side: **managers and owners of firms, entrepreneurs, households, workers:** micro. **Finance ministers, central bank governors, heads of international organisations:** macro.
2. Pick the one asked for. The owner or manager of a business is the usual micro answer.

4. Multiple choice: the macroeconomic effect of an event (1 question)

1. **List the effects in the options** and label each one. Effects on one group of consumers, one industry's profits or one group of workers' incomes are micro.
2. **The macro effect** is on a whole-economy measure: GDP, the unemployment rate, the inflation rate, the balance of payments.

For example, if a new airport opens, airlines gain customers and the airport hires staff (micro), but the macro effects are on the whole economy: **total output (GDP) rises** and the **unemployment rate falls**.

Worked examples

Example 1

Which topic is studied in macroeconomics?

- **A** the wages paid to nurses
- **B** the rate of economic growth in India
- **C** the price of coffee in a café
- **D** the profit of a car maker

[1]

A is one group of workers, C is one product and D is one firm: all micro. Economic growth is the change in the output of the whole economy, so the answer is **B**. (1)

Example 2

The table shows changes in an economy. Which combination has two microeconomic changes?

	change 1	change 2
A	a fall in the exchange rate	a rise in the price of rice
B	a rise in the price of rice	a fall in the output of a steel firm
C	a fall in the output of a steel firm	a rise in the unemployment rate
D	a rise in the unemployment rate	a fall in the exchange rate

[1]

Label each change: the exchange rate is macro; the price of rice is micro (one product); one steel firm's output is micro; the unemployment rate is macro. Only row B has micro in both columns, so the answer is **B**. (1)

A and C are each half right, which is why you label both columns. D has two macro changes.

Example 3

What is **not** a macroeconomic decision?

- **A** a central bank raises interest rates
- **B** a government cuts the rate of sales tax on all goods
- **C** a government sets a maximum price for bread
- **D** a government increases its total spending on public services

[1]

All four are made by a government or central bank, so ask what each is aimed at. Interest rates, a sales tax on all goods and total government spending affect the whole economy: macro. A maximum price for bread is aimed at one market, so it is a microeconomic decision, and the answer is **C**. (1)

Example 4

A country's largest steel works closes. What would be a macroeconomic effect of the closure?

- **A** The price of steel would rise.
- **B** The owners of the steel works would lose their profits.
- **C** The country's unemployment rate would rise.
- **D** Shops near the steel works would lose sales.

[1]

A is the steel market, B one firm's owners and D a few local shops: all micro effects, and all could be true. The question wants the effect on the whole economy, which is a rise in the **unemployment rate**, so the answer is **C**. (1)

Common mistakes

- **Treating "government" as a synonym for macro.** A rent ceiling, a subsidy for one crop or breaking up a monopoly are government decisions, but they are aimed at one market, so they are micro.
- **Being fooled by big words.** "The total output of a country's shipbuilding industry" and "average pay of teachers" sound national, but each covers only part of the economy: micro.
- **Stopping at the first column of a combination table.** Many rows are half right; label every entry before choosing.
- **Missing the word "not".** Four of the 22 questions ask which option is **not** micro or macro. Underline it before you start.
- **Picking a true micro effect when a macro effect is asked for.** In an "impact of an event" question, several options are true; only the whole-economy one (GDP, unemployment rate, inflation) answers a macro question.
- **Answering a macro question with a market.** Examiners report written answers on a macroeconomic question that only discussed the demand for one good, which is a microeconomic idea. When a question is about inflation, growth or unemployment, write about total demand, total output and the price level, not one product.
- **Being vague about macro aims.** When a later question asks for macroeconomic aims, name them properly: low **inflation** (stable prices), low **unemployment**, economic **growth**, a stable **balance of payments**, not just "unemployment" or "more demand".

How to get the marks

- **Multiple choice is 1 mark and no penalty for a wrong answer**, so never leave one blank.
- **Label every option**, micro or macro, before choosing. Most wrong options are the other branch, so this finds the answer quickly.
- **Read the stem for the word in bold:** "not", "both", "most likely". Examiners stress reading every word, especially words in bold.
- **Use the one-part-or-all test:** one product, firm, industry, market or group of workers is micro; the whole economy (or the world economy) is macro.
- **For a government or central bank, check what it is aimed at:** the whole economy is macro, one market is micro.
- **This topic is well answered:** in June 2025 one of these questions was among the five that most candidates got right. The marks are lost on the traps above, not on hard ideas.

- **Using it in written answers.** If you are asked to *Define* or *Explain* the terms on Paper 2, give both parts: who or what is studied (individual decision makers and markets, or the whole economy) and an example of each, such as the price of one good (micro) and the inflation rate (macro).

Quick check

1. Who is a macroeconomic decision maker?
 - **A** a household choosing which car to buy
 - **B** a trade union asking for higher pay
 - **C** the governor of a central bank
 - **D** a farmer deciding how many cows to keep
2. Label each as micro or macro: (a) the price of tickets for a football match; (b) the country's inflation rate; (c) a firm's decision to open a new factory; (d) a cut in the tax rate on all company profits; (e) the country's balance of payments; (f) the number of workers employed in the fishing industry.
3. What is **not** included in macroeconomics?
 - **A** total spending in the economy
 - **B** the exchange rate
 - **C** the price elasticity of demand for tea
 - **D** the money supply
4. World oil prices rise sharply. What would be a macroeconomic effect in an oil-importing country?
 - **A** Petrol stations raise their prices.
 - **B** An airline raises its fares.
 - **C** The country's rate of inflation rises.
 - **D** Drivers switch to smaller cars.
5. In two or three sentences, explain the difference between microeconomics and macroeconomics, with one example of each.

Answers

1. **C.** The central bank sets interest rates and the money supply for the whole economy. A, B and D are a household, a trade union and a firm: micro. (1)
2. (a) micro (one product); (b) macro (the general price level); (c) micro (one firm); (d) macro (a tax paid across the whole economy); (e) macro (the whole country's trade); (f) micro (one industry).
3. **C.** Price elasticity of demand for one product is a market topic, so it is micro. Total spending, the exchange rate and the money supply are all macro. (1)
4. **C.** A, B and D are effects on particular markets, firms or consumers (micro). A rise in the rate of inflation is a change in the general price level of the whole economy, so it is the macro effect. (1)
5. Microeconomics studies the decisions of individual consumers, workers and firms and how single markets work, for example why the price of rice rises after a poor harvest. Macroeconomics studies the economy as a whole, for example the country's inflation rate or rate of economic growth. Micro decisions are made by households, workers and firms; macro decisions are made by the government and the central bank.

Past questions to try

- 0455/13/M/J/24 Q7: which topic is part of microeconomics.
- 0455/13/M/J/23 Q4: the one decision that is not microeconomic.
- 0455/11/O/N/22 Q4: a combination table with two microeconomic changes.
- 0455/11/O/N/23 Q4: two linked changes in the wheat market.