Funding the Future

New glossary entry: microeconomics

Published: February 17, 2026, 7:18 am

Microeconomics is the study of how individual economic agents, whether they be households, firms, workers, consumers, organisations, or governments (in some of their roles), make decisions about production, consumption, pricing, and exchange. It examines behaviour at the level where choices are made, contracts are signed, and resources are allocated in particular markets or institutions.

First, microeconomics is about real decisions. Firms decide what to produce. Workers decide whether to work and at what wage. Households decide how to spend income. Banks decide who to lend to. These decisions are shaped by prices, preferences, incomes, expectations, and a wide variety of constraints. But they are also shaped by law, bargaining power, social norms, and access to information.

Second, microeconomics is about markets as mechanisms that facilitate exchange as institutions, and not as abstractions. Property rights, company law, labour regulation, other regulations, e.g. on advertising, accounting standards, tax rules, and competition policy, can all determine how markets function. When mainstream theory assumes "perfect competition" and "rational actors", it often ignores the institutional reality in which monopolies, information asymmetry, and power dominate. Those assumptions are, as I have often said, poor approximations to the truth when treated as universal.

Third, microeconomics explains distribution within markets. Wages, profits, rents, and interest payments depend not only on productivity but also on bargaining power. Trade unions, minimum wage laws, social security systems, and corporate governance rules all affect outcomes. Microeconomic analysis, therefore, links directly to questions of fairness and justice.

Fourth, microeconomics interacts with macroeconomics. Individual decisions aggregate, albeit imperfectly, into national outcomes. If firms cut investment because of uncertainty, the economy slows. If households increase their savings, government spending must rise; otherwise, unemployment will follow. Ignoring these links leads to policy mistakes, which is a point I make frequently on Funding the Future when discussing austerity or balanced budget rules.

Fifth, microeconomics should include care and sustainability. Traditional models often exclude unpaid care work, environmental costs, and social externalities. Yet these shape real economic outcomes. A firm that pollutes or exploits labour may appear efficient in narrow microeconomic terms while destroying environmental, human, or social capital. This is why macroeconomic well-being cannot ever be the aggregate of measured monetary microeconomic performance alone.

Finally, microeconomics is not value-free. Decisions about competition policy, consumer protection, tax incentives, and public provision all embed moral choices about what behaviour society permits. The purpose of microeconomic policy should therefore be clear: markets should serve human well-being, support fair distribution, and maintain the five forms of capital on which future prosperity depends.

Microeconomics, properly understood, is not a justification for laissez-faire. It is a tool for understanding how real people and institutions behave so that policy can create markets that deliver care, security, and sustainability rather than exploitation and instability.