

No. 307 October 2009

What About Microeconomics?

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14 October 2009

In a recent *New York Times Magazine* article, Paul Krugman laments the current state of macroeconomics (the study of the determinants of an economy's level of output and employment) that blinded us to the forces that, in his view, caused the current recession. However, he never mentions the state of microeconomics.

Microeconomics is the study of how firms and consumers make decisions in markets and how the government tries to address conditions that lead to "bad" decisions. And it has not suffered any serious intellectual setbacks from the current Great Recession. Indeed, the causes and cures of this recession are more about microeconomics than about macroeconomics.

Microeconomists' theoretical and empirical contributions have taught us that market failures do exist but that the government rarely, if ever, can be counted on to correct those failures efficiently. Nothing in the last two years has undermined microeconomic analyses that influenced the deregulation of the airline, trucking, railroad, natural gas, crude oil, telecommunications and cable television markets.

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This article was first published in [Forbes](#) online on 5 October 2009.

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