

FUNDAMENTAL METHODOLOGY OF ECONOMIC ANALYSIS

Early this year (2003) professor Kamen Mirkovitch, Ph.D., published his new fundamental study of microeconomic laws and processes in the market economy. A perfunctory look at the title would hardly impress anyone -there are scores of textbooks and methodology manuals on microeconomics in Bulgaria. But even a cursory inspection of the textbook's contents convinces the reader of the wide range and richness of ideas and solutions that could expand and innovate one's knowledge. A more thorough inspection of the research, however, gives us reason enough to see how far we are from the basics in the intransient values of the general theory of economics. Even more, effective change can only be carried out by the experts well acquainted with the magic of economic thought and actions.

A New Approach

The new moments in the author's approach to the creation of this notable work may be summarized in several groups:

1. The first thing that impresses about the book is its volume of 1125 pages. From this aspect it is the only one in our country regarding its scope and depth of analysis. Few foreign authors may boast to have met the requirements of the capricious academic and non-academic wide public with a similar study.

The book is split into 6 parts and 37 chapters. *The First part* is dedicated to the consumer's choice and subsequent individual and market demand; *the second* - on the processes of manufacturing, and market equilibrium deterftuned by it; *the third* - on market mechanisms and market structures; *the fourth* - on the contemporary architecture of the organization of companies; *the fifth* - on the nature and mechanism of functioning of perfect competition; *the sixth* - on general market equilibrium in microeconomics. I find this structure logical and allowing to examine with precision the complex aspects of the economic theory and their practical application.

The type of structure chosen incorporates some original elements. *First* - the accent falls on the primary basis of every production - the economic needs and subsequent demand and consumer's choice; *second* - a "superstructure" over this basis is the production (supply) and the market equilibrium; *third* - logically, the author has focused on coordination and cooperation between supply and demand - the forms of market organization; *fourth* - an emphasis is put on the organizational form of the firm as a subject for studying the economic needs and creating the conditions for their satisfaction; *fifth* - the factor dejtermination of supply and demand from the resources providing activities has been investigated, and sixth -

* Mirkovitch, Kamen. Microeconomics, First Edition. Sofia, Trakia M, 2003, 1125 p.

the mechanisms and instruments of the general microeconomic equilibrium have been made clear.

The author regards equilibrium as singular and common on the one hand, and macroeconomic and microeconomic on the other. The subject of examination is the singular and common microeconomic market equilibrium.

2. Whereas in the major part of textbooks the functional connections, which characterize the prerequisites, conditions and mechanisms, functioning (including disruption and recovery of balance) of the dynamic economic systems on microeconomic level are implicitly indicated, or in places only hinted of, the present research boasts a rich mathematical apparatus on the modeling of processes in their actual and alternative states. Categories and models follow in a strict succession. A good number of processes are illustrated by schemes and diagrams. The analysis is of a strictly theoretical nature. Of course a similar approach using too much mathematics may have a negative effect on the general reader, and contribute towards a lessened usage of the book.

3. The author presents us with an encyclopedic study bearing several significant features. First, phenomena and processes have been examined with differentiation regarding scope and depth, which can rarely be said about most of the textbooks known to me. Second, a list of the keywords, used in the chapter follows each chapter so the reader can further rationalize through the economic dictionaries available. Third, the text contains biography and bibliography reference to major authors and their works, a lot of them founders of scientific schools and trends. Biographies of 36 authors have been included, 7 of them Nobel Prize winners. Without doubt the authors quoted are founders and builders of the general theory of economics in the XIX and XX centuries. A lot of additional explanations compliment the main text, as in chapter 34 e.g.: summary of the isoquant and the indifference curve, summary of the marginal rate of substitution, marginal rate of the equivalent ingredient transformation, etc. Fourth, the book ends with a glossary and an index.

All these details contribute to the encyclopedic value of professor K. Mirkovitch's book, making it very useful for theory and practice alike. If the availability of both concise and detailed contents is added to its merits, the study reviewed may be described as practical and unique.

The Author's Contributions

The ideographic aspect of the monograph concerns the development of a number of new principles of a highly cognitive value.

1. New to the microeconomic analysis is the development of the theory about the nature and typology of the utility and product microeconomic growth (pp.141 - 162 and 292 - 314).

In the first case the growth of the total utility of a bundle of goods, received by a single consumer is interpreted, or the growth of the total utilities of a bundle of goods, received by a group of consumers. The basic factors of these varieties of

growth are the changes in the quantity of the products used and their average and marginal utilities. The laws of the utility microeconomic growth are fully covered and analyzed from a singular and multiple point of view. Thus a number of varieties of microeconomic growths may be defined: *from one point of view* — single and double utility microeconomic growth, *from another point of view* - single product and double product utility economic growth. From a functional point of view differentiated classifications of the utility economic growth and its basic indicators have been drawn. The latter are based on the relation between marginal and average utility. Especially significant are the summarized relations between the elasticity coefficient of the total utility and the product on the one hand and their derivatives on the other. Reference is made to the connections between the elasticity coefficient of the total utility to the product - once as a product of the marginal utility of the particular product and the respective average product saturation capacity, second - as a relation between the average product saturation capacity of the utility and the marginal product of utility (from the same product), and *third* - as a relation between the rate of growth of the average utility and the rate of growth of that very product. Three basic classifications of the utility microeconomic growth are offered, based on the dynamics between the extensive, intensive and extensive-intensive indicators of utility effectiveness.

Professor K. Mirkovitch sees product microeconomic growth as the growth in the production of a given company (the growth of the product manufactured by it). The methodology used in the study of the utility microeconomic growth has also been applied to this variety of microeconomic growth.

In both cases the typology of the double product economic growth is a subject of investigation in the topic on general market equilibrium.

The classification of the utility and product economic growth, made by the author is of an important cognitive significance. Other classifications of growth exist, which are also highly valued. R. Sollow, for example, classifies it as produce economic growth through the quantification of capital by volume and degree of depreciation as well. His is the classification based on the dynamics of the macroeconomic marginal utility of labour (provided the labour absorbance of the GDP is a constant) too. R. Harrod also has similar classifications - sustainable economic growth (inducing rates of growth relevant to the full use of production capacities, e.g. reaching the maximum rates of growth under the current economic and technological conditions); growth classifications based on the dynamics of the macroeconomic marginal productivity of capital at a constant level of GDP, etc.

2. Significantly new to the study reviewed is the ingredient approach to microeconomics. Professor K. Mirkovitch is of the opinion that a great deal of the microeconomic problems can be examined in the same form and sequence regarding products, utilities and factors. This approach is a natural result of the thesis adopted by the author; according to which economic growth represents the growth of the microeconomic ingredients - products, utilities and factors. The third

type of economic growth is based on that - the factor growth, revealed through its forms of display - general, microeconomic and macroeconomic growth. A similar diversification of the economic knowledge allows the induction of additional information in every analysis, enriching our ideas about the realities that surround us.

3. Last but not least is the study of the creative possibility frontier (pp. 885 - 903). Under creative possibility frontier professor Mirkovitch means a multitude of all points from the combinations of maximum volumes in creating all sorts of economic ingredients from a given variety in a economic system that may be the result of a constant quantity of resources and their full, optimal and effective usage. This creative possibility frontier is revealed in three basic varieties: a) consumer possibility frontier - the maximum volumes of total utilities of all consumers, accumulated at a constant rate of optimal and effective usage of goods; b) production possibility frontier - the maximum volumes of production accumulated at a constant rate of optimal and effective usage of resources, a predetermined technological basis and full, optimal and effective usage of the production factors; c) creation possibility frontier - the maximum volumes of production factors that can be established in correspondence with the society consumer capacity at a constant volume and full, optimal and effective distribution of utilities.

These three manifestations of the creative possibility frontier form a closed cycle in the welfare theory.

Formally the creative possibility frontier can be illustrated by the curve, plane and hyper plane of creative possibilities.

On the Breadth and Depth of the Analysis

The research that professor K. Mirkovitch offers gives food for thought on a number of subjects. Some of them have been summarized without going in details.

If Economics came into being after an article written by professor E. Hevings in 1902 for Encyclopedia Britannica, then a century later this and two other works by professor K. Mirkovitch (Macroeconomics, Sofia, Trakia M, 2001, 1104 p. and International Economics, Sofia, Trakia M, 2000, 1008 p.) marked the peak of perfection in the development of Bulgarian general economic theory.

At the same time regardless of the multiple textbooks and publications the question about the scope of economics as a general theory is still not unilaterally solved.

1. It is worth re-valuing the traditional solutions about the boundaries of economic knowledge, or the economic subject. Which is the economic scope - is it only production (the sectors of the economy), or it concerns the whole economic media? And is the economic media equivalent to the national economy? And yet - are they synonyms, or different variables? These issues should be made clear to avoid duplicity of interpretation of the surrounding phenomena and processes.

2. It is not possible to use the term "economic system" throughout the analysis without giving a clear definition. Does this not deserve a separate chapter? Or at least a few words in the textbook glossary?

3. The issue of entrepreneurship as an alternative to demand and forming and carrying out decisions about growth of the economy ingredients, based independence, initiative, innovation and constructivism formed is unavoidable for such a fundamental study. One can see a very serious functional analysis of different combinations, substitution of resources, products and utilities, but the formulation of the entrepreneurship factor is missing. In this line of thought the study lacks analysis of such system-forming issues as that about property as the foundation of every production, about the contemporary typology of the market economy, about the emerging importance of non-economic factors of growth, etc.

4. The book could have benefited from references to contemporary economic practice. The impressive accumulation of theoretic economic solutions over the last two centuries, supplementing the general economic theory is very useful and deserves high merits. No one should doubt that this study is unique by its design and execution. But it seems sterile without the pith and marrow of practice. The "preserves" used (logic of mind) do not very often correspond to the logic of life.

5. Professor K. Mirkovich is widely known in the academic society for his proverbial inclination to apply a mathematical apparatus to all economic processes and phenomena. His research has always been admired for its original approach and instruments used. Still a question remains open — if the reader had been spared a certain part of the highly deductive analysis, would not the textbook have been easier to understand and prefer by the majority of lecturers, students, research fellows and practitioners? The author's striving for perfection is easily understood, but if in places it takes a self-centered twist that would surely contradict the idea of an encyclopedic research. That would make the book easier to comprehend by the undergraduate community. I find that the study is more of a book of reference for the post-graduate student or lecturer, than a textbook for the undergraduate.

Perhaps some omissions in the textbook, which cannot be avoided, will be compensated for if a study guide is added.

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The market for scientific products has been enriched by an exceptional work - a monograph textbook on microeconomics. Written in unison of the contemporary functional economic theory the textbook contains the quintessence of economic knowledge over the last centuries in all its comprehensiveness and colour; it reveals the preferences and intellectual anguish of the author, bearing evidence to the untamable spirit of penetration into the nature of economic variety and the study of its laws.

Pano Lulansky, Professor, Dr. Ec. Scs.