

A Comparative Study of the Microeconomic Impacts of COVID-19 Pandemic

By

Ehan Fayaaz Faruque

International Hope School

Dhaka

Email: ehanff05@gmail.com

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Abstract

One of the most important questions Economists need to answer post covid is the microeconomic impacts of the pandemic. This question is vital because it enables understanding of how firms deal with pandemics in the modern era and more importantly the challenges faced by economies when there is a widespread pandemic and their ways of coping with it. Until recently, there had been very little quantitative testing of the microeconomic impacts of the COVID-19 pandemic. However, the pandemic did have numerous effects such as a rise in scarcity of goods and increased demand for products that were short in supply. As the impacts vary, this paper examines all of them in depth along with contextually interpreting their cause and the approach taken or required in order to reduce their consequences. Further, this paper schemes through a variety of ways by which the global economy struggled and also the policies implemented by countries to fight the microeconomic impacts of the pandemic. To attain this purpose, crude statistics are employed, a brief definition of microeconomic concepts are mentioned and examples are provided for a comprehensive understanding of the topic. Accordingly, the effects also vary in length as some are only short-term and some long-term. Further, the unprecedented crisis also jeopardized many achievements in the global economy-many falling in the micro sector. To analyze all the effects in depth and complement the findings, case studies have also been provided and statistical tools have been employed in order to interpret the data's collected throughout.

Keywords: Microeconomic Impacts, Pandemic, Firms, Modern Era, Economies, Quantitative Testing, Scarcity, Increased Demand, Global Economy

Introduction

Unprecedented health crises is a hot-button issue across many of the world's economies, and many governments use health safety as a tool to determine everything from economic prosperity to citizen satisfaction. However, health is a challenge for all societies, and this became clear with the outbreak of COVID-19. Everything starting from global economic stability to the way economic forces act have been heavily affected by the pandemic, enabling humanity to discover the impacts of a pandemic throughout an economy. However, the microeconomic impacts of the epidemic have been quite significant since its inception. This part of the economy deals with individual behaviours and decision making mechanisms present in a society and would present a clear picture on how a pandemic can affect the way firms and economic forces interact and the way they tend to allocate scarce resources which play a vital role throughout the economy.

In this perspective, this paper takes an attempt to address the various microeconomic impacts of the COVID-19 pandemic and the varying time lengths for which they took place. Furthermore, analyses have been made to address the continuing difference between each of the impacts of the alongside the required policies that need to be implemented in order to bring back the economy to its original form. Finally, this paper examines the changes in behaviours of small individuals and how it is likely to be relatable in the case of future outbreaks and epidemics.

Key Effects of The Pandemic(COVID-19) on The Microeconomy

- Reduction in the competitiveness of the market- Firms and individual retailers were forced to shut down upon facing large debt and reduced revenue.
- Effects on demand and supply- Reduced production and the willingness and

ability to acquire goods have taken place globally.

- Slower decision making- Uncertainty resulting from the pandemic has caused a decrease in the pace at which individuals and market forces make decisions.
- Low investment made by market forces- As there is uncertainty, consumers and producers are unwilling to invest large funds.
- Price fluctuation- Since demand and supply are constantly changing, the prices asked for certain goods are also rapidly changing.

Literature Review and Hypothesis Development

For my study I refer to the following case studies:

Case I:

John E. Ataguba (April 2020) proposed in the study COVID-19 Pandemic, a War to be Won: Understanding its Economic Implications that the inception of the Coronavirus disease has led to growing concerns and uncertainties. Furthermore, the study referred to Africa in order to determine the microeconomic impacts the region has to deal with post covid. The study summarized that Africa has seen a reduced level of transactions, leading to reduced demand for goods in the market. Hence, production has fallen and it is the underlying problem of uncertainty to blame.

Case II:

Oyinlola Abodunrin, Gbolahan Oloye, Bola Adesola (March 2020) Justified in the study Coronavirus Pandemic And Its Implications On Global Economy that aside from being a health issue, COVID-19 had a thorough impact on all levels of the society and market. A major impact of the pandemic is that it reduces the supply of labor in the market, which contributed to the

abatement of production. Overall, this microeconomic impact has also facilitated the unprecedented freefall of the components of aggregate demand.

Case III:

Alexander A. Auzaan (April 2020) Found through conducting the study *The Economy Under The Pandemic And Afterwards* that despite the global economic crisis being undertaken by a shock because of the pandemic, globalization has come to a stoop end. Meaning, export and import has been reduced to a whole new extent, which was not seen since the early times of the Industrial Revolution (1760). As a result, the reduced level of international trade has minimized production and the microeconomy sector has been shaken. Moreover, firms and forces in the market have begun becoming more dependent on the government's financial interventions. Hence, the way producers, consumers, or any individual makes decisions in the market in the future will be quite different from the recent past and their approaches to investments will be unlike.

Data Representation

To analyze the data available and interpret them to come to a conclusion, the study made use of statistical tools such as bar graphs, pie charts and histograms, as a means of data representation; on the other hand, to evaluate responses, tables are provided.

The microeconomic branch is considered to be responsible for studying how human behaviors change and how the market is affected by individual decisions. A major behavioral change followed by the pandemic was the change in the consumer's expenditure and their pattern of investment. To analyze this change in depth, we need to first firmly scrutinize the stock markets and the changes they had to overcome post COVID.

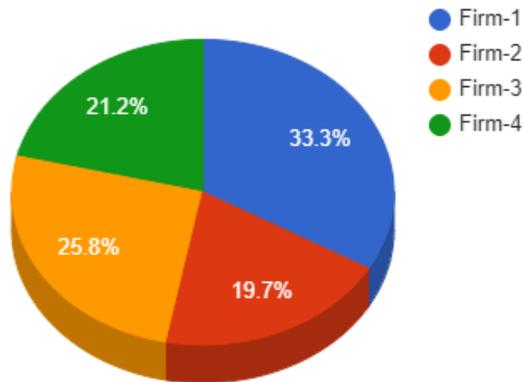
Undoubtedly, since 2020 the stock market has seen big shifts. Primarily, low investment and reduced level of expenditure is responsible for this change. However, trade between companies and consumers is also something that needs to be considered. Post COVID, trading (including exports and imports) done by companies have plunged, this may also add to the cause behind the reduction in stock trading.

	Company 1	Company 2	Company 3	Company 4
Changes in share trading	-17%	-22%	-11%	-13%

The table above demonstrates the reduction in share trading that took place in four companies. For unbiased analysis, the names of the

companies have been kept anonymous. However, each company has seen a reduction in trade of more than ten percent of its usual.

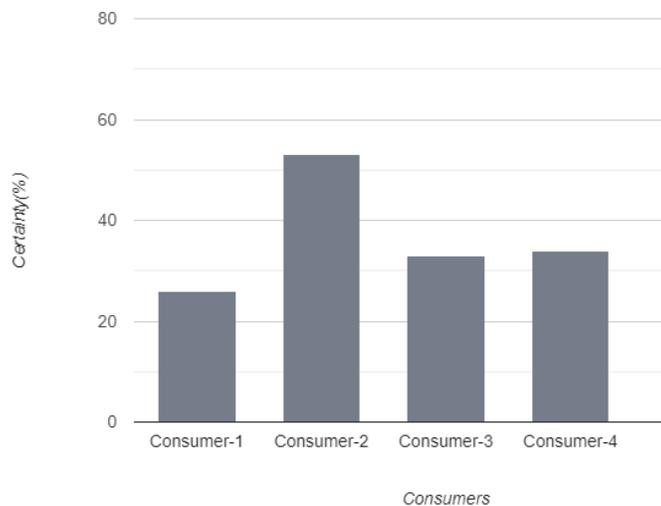
Reduction In Profits Earned By Firms In %



One of the biggest microeconomic impacts of any pandemic is the reduction in profits earned by firms. As discussed earlier, due to increased consumer uncertainty, expenditure in the market has reduced. But to what extent has the reduction taken place?

The statistical tool above is employed to demonstrate the reduction in profit earned by four firms. Each firm had a reduction of approximately 20% or more in their total profits earned. On average, the business entities say profits have decreased by 25% since the inception of the pandemic.

Reduction In Consumer Certainty



One factor from which the other microeconomic impacts originate is the reduction in consumer certainty. This factor deals with the level of uncertainty that consumers have in a period for which their expenditure in the market abates. To analyze the repercussions of low consumer

expenditure in depth, some economic conditions and results need to be first thought of.

In a market, if there subsists less expenditure, it implies that the level of economic activity, meaning trade is low. Hence, aggregate demand will contract and the price level of goods in the

economy will reduce. Because the pandemic has made it harder for entities to trade internationally, reduction in national demand means reduced gross demand for them as there exists no other factors in the global economy which can increase the demand for their goods. So, this reduced-price level reduces firms' motivation to increase their

output and as a result of the low level of willingness and ability to acquire goods in the economy, firms tend to decrease their supply. All these originate from low consumer certainty and hence this microeconomic impact worsens the economy by different means.

Reduction In production(Gross Output)			
Frim 1	Firm 2	Firm 3	Firm 4
16%	18%	22%	9%

To deeply understand major microeconomic impacts such as reduced sales and business certainties, the extent to which production is reducing in an economy needs to be first recognized. The table above demonstrates the reduction in sales, or in economic terms by taking account of four firms. It can be seen that each firm saw a reduction in their total output by approximately 10% or more.

This plays a key factor in analysing why profits earned by firms reduced (another key microeconomic impact) and more importantly how many other impacts had risen.

Objectives of The Study

- To understand the microeconomic impacts of pandemics and the recent outbreak of the COVID-19.
- To analyze how entities are affected with changed decision making.
- To interpret the effects on consumers and producers of an unprecedented health crisis using statistical tools and measures.
- To examine the effects on reduced international trade on demand and supply.

- To determine the factors that lead to uncertainties amongst entities existing in a market.

Need For The Study

For years, economists and researchers were concerned about the economic impacts of a pandemic-more so a pandemic in the modern day- and it has been a prevailing issue for individuals in an economy to ponder upon. However, what was often overlooked was the microeconomic impacts of a pandemic and how entities existing in a market would be affected by it. This study, looks over the overlooked and tries to conclude the means by which the microeconomy is affected by a pandemic, especially in this digital era.

Limitations of The Study

While this study does take into account a number of impacts that the pandemic had on the microeconomic sector of the economy, it is safe to assume that there still exists a number of impacts which are not mentioned because of its insignificant nature and little effect on the economy. As a result, it can be inferred that this study has potential limitations. The data interpretations and case studies provided are based on interventional and prospective

observational studies. Hence, they may be subject to biases and confounding which may have influenced the conclusions and estimates. The empirical results reported herein should be considered in the light of some limitations; nonetheless, carrying out surveys across the world can be an alternative methodology which can abate the limitations presented.

Research Methodology

Both primary and secondary sources form a significant portion of the data provided in the study. In the context of primary sources, the study has used qualitative methods to analyze non-numerical data's and interviews as a source of collecting non-numerical data's for the first time. On the other hand, secondary sources were collected through articles, online media and interviews done by others.

Research Design

This project is based on exploratory as well as descriptive study. The descriptive research presented is carried out to report about the microeconomic impacts of the pandemic in depth, and the exploratory study is presented to clarify and define the most suitable reasoning behind the causes of the impacts. Overall, exploratory studies have been used as a means of gaining ideas and insights to the topic and descriptive research to come to a conclusion. The uses of the exploratory studies came in the form of first formulating the topic for further investigation; then, building the appropriate hypothesis; next, setting priorities for furthering the research; finally, rising familiarity with the topic and coming to a justified conclusion. On the other hand, descriptive research was also used to come to a justifiable conclusion. It was in the means of setting out questionnaires, personal interviews and observations.

Findings

1. There is prevailing evidence to suggest that the pandemic-COVID-19- had numerous microeconomic impacts.
2. A significantly indirectly proportional relationship between expenditure and uncertainty exists in economies.
3. Safety is a major factor considered before making investments.
4. Low investment can harm entities in an economy.
5. Crises can have adverse effects on the way decisions are made in the economy.
6. Gross outputs of firms reduce with underlying uncertainty.
7. Profits and income reduce which reduce trade in an economy.
8. Safety of investing on investment schemes plays a big role while individuals invest in a market, and during the pandemic this factor of safety decreases to the extent where entities feel discouraged to employ their funds in the market.
9. Due to fall in income in large, demand for goods in an economy abated, which fluctuated price and hence the overall production in the economy.
10. As the crisis prolongs, entities in the market tend to find ways by which they can return to their original state and increase their chances of making profits and income.

Suggestions

"Covid-19 will reshape our world. We don't yet know when the crisis will end. But we can be sure that by the time it does, our world will look very different." --Josep Borrell (High Representative of the European Union for Foreign Affairs and Security Policy)

The covid-19 pandemic is undoubtedly an unexpected torment for the global economy. This

prevailing health crisis had numerous effects on our economy; however, it is important that entities pick themselves up and determine how to battle this crisis alongside being able to grow further. Moreover, it can be construed that hard times dawn on the economy on a frequent basis and even though prolonged, entities existing in the economy should prepare themselves accordingly.

Concluding Statement

After the analysis and interpretation of data by the researcher it is concluded that the major microeconomic impacts faced by an economy post COVID (or any other pandemic) are: underlying uncertainty, reduction in demand and supply, constant fluctuation in price, reduced profits and income earned by producers and consumers in the market, changes in share trading. All these merges to play a significantly large role when it comes to the extent to which the microeconomic impacts vary in an economy. Moreover, the effects of each impact differ, which is essential to mention.

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