SCANNER®

CA FOUNDATION · PAPER 4 · BUSINESS ECONOMICS

1.5-Day Revision Book

One hour a day for 49 days → revise the whole paper in 1.5 days → perform in the 2 hours that count

49 × 1 hour	1.5 days	2 hours
Watch the 30-minute video, then solve the day's Scanner questions and fill your error log.	Revise every class in about 18 minutes using only this book.	Walk into the examination hall with every class fresh in mind.

Shuchita Prakashan · Scanner series · www.scanneradda.com

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How to use this book

DURING THE 49 DAYS

1. **Watch the day's video** (30 minutes) and keep this book open at the same day.
2. **Solve the day's Scanner questions** (about 30 minutes). Every wrong answer goes into "My error log" on that day's page: the question, why you got it wrong, and the rule to remember.
3. **Tick the weak spots** where you slipped. These ticks tell you where to slow down in your 1.5 days.

IN THE 1.5 DAYS BEFORE THE EXAMINATION

1. **Follow the timetable** on the next page. Each day of the course takes about 18 minutes to revise.
2. **For each day, read in this order:** Exam in 60 seconds → One Liners (★★★ first) → Traps → your own error log.
3. **Do not open new material.** Everything you need for revision is already on these pages and in your error log.
4. **Keep the last evening for the Final Sprint** (the ★★★ One Liners at the end of this book) and your error log, then sleep well.

READING THE STARS

★★★ asked 6 or more times · ★★ 3 – 5 times · ★ 1 – 2 times in ICAI papers, RTPs and MTPs.

Your 1.5-day revision timetable

Fifteen hours of revision in nine sessions, with breaks. Move the clock times to suit your examination day; keep the order.

Part	Time	Revise	Minutes
Half day	2:00 – 4:00 pm	**Days 1 – 7 · from page 7** Unit 1 · Introduction; Basic Problems of an Economy and Capitalism; Socialist and Mixed Economies …	119
Half day	4:30 – 6:30 pm	**Days 8 – 14 · from page 21** Human Wants, Utility and the Law of DMU; Consumer Surplus and Indifference Curve Analysis; Supply, Elasticity of Supply and Equilibrium …	126
Half day	7:30 – 9:30 pm	**Days 15 – 21 · from page 35** Long Run Average Cost and Economies of Scale; Meaning of Market and Classification of Markets; Market Structures and Revenue Concepts …	121
Full day	6:30 – 8:30 am	**Days 22 – 26 · from page 49** Oligopoly and Other Market Forms; Business Cycles: Meaning, Phases and Indicators; Features, Causes and Relevance of Business Cycles …	107
Full day	9:00 – 11:00 am	**Days 27 – 33 · from page 59** Keynes, Circular Flow and the Consumption Function; Equilibrium Income, Multiplier and Sector Models; Functions of Government and Fiscal Federalism …	136
Full day	11:30 am – 1:30 pm	**Days 34 – 39 · from page 73** Public Debt Management and Budget Concepts; Fiscal Policy: Objectives, Types and Instruments; Money and the Theories of Demand for Money …	108
Full day	2:30 – 4:30 pm	**Days 40 – 46 · from page 85** Why Nations Trade: Theories of International Trade; The Instruments of Trade Policy; Trade Negotiations — RTAs, GATT, WTO and Doha …	125
Full day	5:00 – 6:00 pm	**Days 47 – 49 · from page 99** Indian Economy: From Colonial Rule to 1991 Reforms; GDP Growth after 1991 and NITI Aayog; Indian Economy Today: Three Sectors and Conclusion	58
Full day	7:00 – 9:00 pm	**Final Sprint · page 106** ★★★ One Liners at the end of this book, then your error log for all 49 days. Sleep by 10:30 pm.	120

Take a 30-minute break between sessions: walk, drink water, and look away from the page.

Index of classes

Find any class by chapter. “Minutes” is its share of your 1.5-day revision; “Page” is where it starts in this book.

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DAY 1

Unit 1 · Introduction

Chapter 1 Nature and Scope of Business Economics · Topics 1.0 – 1.4

Revise in about 20 minutes · Video: Paper 4 Day 1 · Session 1 of your timetable

EXAM IN 60 SECONDS

1 Oikonomia = household; Political Economy till the 19th century; Adam Smith, 'The Wealth of Nations' (1776).

2 Unlimited wants + relatively scarce means; scarcity is relative and causes every economic problem → choice → trade-off.

3 Business Economics = Managerial = Applied Economics; Joel Dean; five quantitative techniques.

4 Micro = individual units ('price theory'); Macro = aggregates ('aggregate economics').

5 Nature: science and art, Micro-based with Macro, pragmatic, interdisciplinary, mainly normative.

6 Scope: internal issues → Micro; external factors → Macro (no control). BE is the applied branch of Economics.

ONE LINERS

Topic 1.0 · Introduction		
1	★	Economics ← Greek 'Oikonomia' = household; earlier called Political Economy.
2	★★★	**'The Wealth of Nations' (1776), Adam Smith — first modern work of Economics.**
3	★★	Unlimited wants + relatively scarce means = subject matter of Economics.
4	★★	Scarcity is relative to wants, never absolute.
5	★★★	**Scarcity → all economic problems; unlimited ends + limited means → problem of choice; every choice is a trade-off.**
6	★	Rational choice = alternative giving greatest satisfaction.
7	★	Business = economic activity creating net value added; NPOs aim at social benefit.
Topics 1.1 and 1.2 · Definitions, Micro and Macro		
8	★★	Business Economics = Managerial Economics = Applied Economics; integrates economic theory with business practice; basically Micro.
9	★	Joel Dean: use of economic analysis in formulating business policies.
10	★	Quantitative techniques: linear programming, regression, capital budgeting, break-even, cost analysis.
11	★	Economics = Micro + Macro.
12	★★★	**Micro = behaviour of individual units (consumers, firms); 'price theory'.**
13	★★★	**Micro list: product pricing, consumer behaviour, factor pricing, conditions of a section of people, behaviour of firms, location of industry.**
14	★★★	**Macro list: national income/output, general price level & interest rates, BoT & BoP, external value of currency, overall savings & investment, employment & growth.**
Topic 1.2 · Nature of Business Economics		
15	★★★	**Nature (8 points): Science · based on Micro · incorporates Macro · Art · theory of markets & private enterprise · Pragmatic · Interdisciplinary · Normative.**
16	★★★	**Pragmatic: Micro is abstract, theoretical, unrealistic assumptions; BE tackles real-world problems.**
17	★★★	**Positive = 'what is', cause–effect, no value judgement; Normative = 'what ought to be', value judgement, prescriptive, welfare.**

18	★★★	**Tax: incidence & incentive effect = positive; fairness = normative.**
19	★★	BE combines both, emphasis on normative (Nature text) — but 'only normative' in the Economics-vs-BE table.
Topics 1.3 and 1.4 · Scope, and Economics vs BE		
20	★	Scope: internal/operational issues → Micro; external/environmental issues → Macro.
21	★★	Micro scope list: demand analysis & forecasting, production & cost, inventory, market structure & pricing, resource allocation, capital & investment, profit, risk & uncertainty. NOT accounting standards.
22	★	Macro factors: economic system, business cycle, national trends, govt policies, central bank/financial sector, socio-economic organisations, social & political environment — management has no control over them.
23	★	BE is the applied branch of Economics; narrower scope; micro-level issues; decision-making in a business entity.

TRAPS TO AVOID

- ✕ Scarcity does not mean shortage in poor countries, during disasters, or caused by the rich.
- ✕ 'Abstract and purely theoretical' does NOT describe Business Economics — that is Micro theory.
- ✕ Accounting standards and 'cost standards' are NOT within the scope of Business Economics.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Scarcity and choice ☐ Definitions ☐ Micro or Macro ☐ Nature of BE ☐ Positive or normative ☐ Scope ☐ Economics vs BE

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY
2

Basic Problems of an Economy and Capitalism

Chapter 1 Nature and Scope of Business Economics · Unit 2 · Topics 2.0 – 2.1

Revise in about 16 minutes · Video: Paper 4 Day 2 · Session 1 of your timetable

EXAM IN 60 SECONDS

1. Central problem = scarcity of resources relative to wants; resources limited AND have alternative uses.
2. Four basic problems: what, how, for whom, provision for growth. Never 'where' or 'when'.
3. More capital goods today means higher production in future; technique depends on relative factor prices.
4. Capitalist = free market = laissez-faire: private ownership of means of production for profit.
5. Price mechanism solves all problems; no central planning authority; competition is the most important feature.
6. Demerits: inequality, exploitation, property rights over human rights; merits: efficiency, growth, self-regulation.

ONE LINERS

Topic 2.0 · Central and basic problems		
1	★★	Central problem = scarcity relative to wants; arises because resources are limited AND have alternative uses.
2	★★★	**Four basic problems: What · How · For whom · What provision for growth (not Where / When).**
3	★	What to produce = which goods + how much; guns vs butter; capital vs consumer goods.
4	★★	More capital goods today → higher production in future.
Topic 2.0 · Technique, growth and systems		
5	★★	How to produce = labour- vs capital-intensive technique, decided by factor availability and relative prices.
6	★	Growth provision = how much saving & investment (sacrifice of current consumption).
7	★	Economic system = sum total of arrangements for production and distribution; three types: capitalist, socialist, mixed.
Topic 2.1 · Meaning and features		
8	★★★	**Capitalist = free market = laissez-faire: means of production privately owned for profit; USA, UK, Hong Kong, S. Korea.**
9	★★	Capitalist features (7): private property · freedom of enterprise · freedom of economic choice · profit motive · consumer sovereignty · competition · no govt interference.
10	★	Competition = most important feature of capitalism.
11	★★	Consumer sovereignty: buyers decide what is produced and in what quantities.
Topic 2.1 · Price mechanism, merits, demerits		
12	★★★	**Capitalism solves central problems through price mechanism (demand & supply); no central planning authority; invisible hand; self-regulating.**
13	★	Capitalist 'how' = cost-minimising technique; 'for whom' = those with buying capacity (income).
14	★★	Capitalist merits: self-regulating, efficiency & incentive, faster growth, optimum allocation, high operative efficiency, efficient economic decisions, innovation, freedom, enterprise & risk-taking.
15	★★★	**Capitalist demerits: inequality, property rights over human rights, ignores welfare, labour exploitation, sovereignty a myth, luxury-goods bias, instability, advertising waste, monopolies, environment.**

TRAPS TO AVOID

- ✕ 'Where to produce', 'When to produce' and 'accept FDI or not' are NOT basic problems.
- ✕ Do not confuse this with 'what to produce'; growth provision is about saving and investment.
- ✕ 'Collective ownership' and 'absence of consumer choice' are NOT features of capitalism.
- ✕ Exploitation and inequality are demerits of capitalism, not of socialism.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Central economic problem ☐ Four basic problems ☐ How to produce: technique ☐ Meaning and features of capitalism ☐ Price mechanism ☐ Merits of capitalism ☐ Demerits of capitalism

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 3

Socialist and Mixed Economies

Chapter 1 Nature and Scope of Business Economics · Unit 2 · Topics 2.2 – 2.3

Revise in about 15 minutes · Video: Paper 4 Day 3 · Session 1 of your timetable

EXAM IN 60 SECONDS

1 Socialism: Marx and Engels, Communist Manifesto, 1848; also Command or Centrally Planned economy.
2 State owns means of production; Central Planning Authority decides; aim is community welfare.
3 Freedom from hunger and right to work guaranteed; consumer sovereignty and occupation choice restricted.
4 Administered prices are set by the planner; price mechanism has only a secondary role.
5 No country is purely socialist today; USSR was socialist from 1917 to 1990.
6 Mixed economy: markets plus government; private and public co-exist; not always a golden path.

ONE LINERS

Topic 2.2 · Socialism: meaning and features		
16	★★★	**Socialism: Karl Marx & Frederick Engels, 'The Communist Manifesto', 1848.**
17	★★★	**Socialist = Command = Centrally Planned economy; State owns means of production; aim = welfare of community; solved through planning.**
18	★	Socialist features: collective ownership · economic planning · absence of consumer choice · relatively equal income · minimum role of price mechanism (administered prices) · absence of competition.
19	★★	Freedom from hunger guaranteed but consumer sovereignty restricted; right to work guaranteed but occupation choice restricted.
Topic 2.2 · Prices, examples, merits, demerits		
20	★	Administered prices = set by central planning authority / government, not by demand and supply.
21	★★	USSR 1917–1990; no purely socialist country today (China, Vietnam, Cuba, North Korea cited).
22	★★	Socialist merits: equitable distribution, rapid & balanced development, no waste, no unemployment/fluctuations, cooperation, right to work, protection from exploitation, social security.
23	★★	Socialist demerits: bureaucracy → inefficiency, delays, corruption, red-tapism; no freedom, no private property, no profit incentive, no cost basis, State monopolies, limited choice, no reward for efficiency.
Topic 2.3 · The mixed economy		
24	★★	Mixed economy: both markets and government; every real economy is mixed; India.
25	★★★	**Mixed economy first feature: co-existence of private & public sectors; three sectors — private, public, combined (joint).**
26	★★	Mixed merits: best of both — private property & incentive, price mechanism & competition, consumer sovereignty, innovation, enterprise & risk, planning, equality, regulation of cut-throat competition.
27	★	Mixed economy is NOT always a 'golden path'; demerits: excessive controls, poor planning, high taxes, corruption, delays, hard to balance sectors.

TRAPS TO AVOID

✕ Do not say demand and supply allocate resources under socialism; the planner's commands do.

- ✗ Right to work guaranteed but occupation restricted is 'absence of consumer choice' in a SOCIALIST economy, not capitalist.
- ✗ Administered prices are NOT fixed by demand and supply; an external authority, the planner, sets them.
- ✗ ICAI's statement: the MIXED economy is not always a golden path between capitalism and socialism.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Socialism: origin and names ☐ Socialist features and consumer choice ☐ Administered prices ☐ Merits and demerits of socialism ☐ Mixed economy and its sectors ☐ Comparing the three systems

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 4

Meaning of Demand and What Determines It

Chapter 2 Theory of Demand and Supply · Unit 1 · Topics 1.0 – 1.1

Revise in about 16 minutes · Video: Paper 4 Day 4 · Session 1 of your timetable

EXAM IN 60 SECONDS

1 Demand = quantity buyers are willing and able to buy at various prices, per period.
2 Effective demand = desire + means to purchase + willingness; unlimited wants is never an element.
3 Determinants: own price, related prices, income, tastes, expectations, population, credit, policy — not cost.
4 Complements: inverse relation with the other's price; substitutes: direct relation.
5 Normal goods rise with income; inferior goods rise to a level of income, then fall.
6 Bandwagon up, snob down (others' consumption); Veblen depends on price; Duesenberry = demonstration.

ONE LINERS

Topics 1.0 – 1.1 · Demand and its determinants		
1	★	Business firms must analyse the demand for their products.
2	★	Demand = quantity buyers are willing AND able to buy at various prices in a given period — more than desire.
3	★★	Effective demand = desire + means to purchase + willingness to use them (unlimited wants is not an element).
4	★★	Determinants: own price, related goods' prices, disposable income, tastes, expectations, population size and age, national income and its distribution, credit and interest, government policy — NOT cost of production.
5	★	Ceteris paribus = other things being equal.
Topic 1.1 · Related goods and income		
6	★	Related goods: two types — complements and substitutes.
7	★★	Complements (consumed together — car & petrol, computer & software): demand vs complement's price = inverse.
8	★★	Substitutes (used in place — tea & coffee): demand vs substitute's price = direct.
9	★	Normal goods: demand rises with income; inferior goods: demand rises only up to a level of income, then falls.
Topic 1.1 · Demonstration, bandwagon, snob, Veblen		
10	★★	Demonstration effect — James Duesenberry — emulating others' consumption.
11	★★	Bandwagon: demand rises because others buy (share-market followers).
12	★★★	**Snob: demand falls because others buy (exclusivity; function of others' consumption).**
13	★★	Veblen: status-seeking rich, conspicuous consumption; function of price.

TRAPS TO AVOID

× Demand is NOT the same thing as desire, need, choice, preference or order — ICAI asks this directly.
× 'Unlimited wants' is not an element of demand — a favourite wrong option.
× Cost of production is a determinant of SUPPLY, not of demand.
× Do not mix the pairs: complements give an INVERSE relation, substitutes a DIRECT one.
× Unequal income distribution LOWERS demand: the rich have a lower propensity to consume.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Meaning and effective demand ☐ Determinants of demand ☐ Complements and substitutes ☐ Normal and inferior goods ☐ Snob, bandwagon and Veblen effects ☐ Expectations and other factors

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 5

The Demand Function and the Law of Demand

Chapter 2 Theory of Demand and Supply · Unit 1 · Topics 1.2 – 1.3

Revise in about 16 minutes · Video: Paper 4 Day 5 · Session 1 of your timetable

EXAM IN 60 SECONDS

1. Demand function: Qx = f(Px, Y, Pr); prices of unrelated goods are not a determinant.
2. Law of demand (Marshall): price and quantity demanded move inversely, ceteris paribus.
3. Demand curve slopes downwards; market demand curve is the horizontal summation of individual curves.
4. Price effect = substitution effect + income effect (Hicks and Allen); Marshall: diminishing marginal utility.
5. Substitution effect is stronger with closer substitutes, lower switching cost and lower inconvenience.
6. Exceptions: conspicuous goods, Giffen goods, conspicuous necessities, expectations, ignorance, necessaries, speculative goods.

ONE LINERS

Topics 1.2 – 1.3 · Demand function and the law		
14	★	Demand function Qx = f(Px, Y, Pr); prices of unrelated goods excluded.
16	★★★	**Law of demand (Marshall): inverse price–quantity relation, ceteris paribus.**
18	★	Market demand = horizontal summation of individual demands.
23	★	Why demand slopes down: price effect, diminishing MU, new consumers, different uses.
Topic 1.3.4 · Price, substitution and income effects		
19	★★	Price effect = substitution effect + income effect (Hicks & Allen); Marshall → diminishing marginal utility.
20	★★★	**Substitution effect: response to relative price change; always positive on a price fall; stronger with closer substitutes, lower switching cost and inconvenience.**
21	★	Income effect = change in demand from a change in real income.
22	★★	Inferior goods: income effect opposes substitution effect; negative IE > SE → law violated (Giffen paradox).
Topic 1.3.5 · Exceptions to the law of demand		
24	★★★	**Exceptions: conspicuous goods, Giffen goods, conspicuous necessities, price expectations, incomplete information / irrationality, necessaries, speculative goods.**
25	★★	Conspicuous (prestige) goods: Veblen effect → upward-sloping demand curve.
26	★★★	**Giffen: inferior, no close substitutes, large budget share, upward-sloping curve (bajra); all Giffen goods are inferior, not vice versa.**
27	★	Conspicuous necessities: TV, refrigerator, AC — demand does not fall as prices rise.

TRAPS TO AVOID

- ✕ Prices of UNRELATED goods are not a determinant of demand — only related goods enter the function.
- ✕ A demand curve need not be a straight line; it can be curvilinear, with a slope that varies.
- ✕ For inferior goods the income effect works opposite to the substitution effect — do not add them blindly.
- ✕ The substitution effect is stronger when ALL three hold: closer substitutes, lower switching cost, lower inconvenience.
- ✕ 'Diminishing marginal cost' and 'cost effect' are not reasons — the reason is diminishing marginal UTILITY.
- ✕ Normal goods, substitute goods, 'white goods', diminishing marginal utility and substitution effect are NOT exceptions.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Demand function and determinants ☐ Law of demand and ceteris paribus ☐ Demand schedule and market demand ☐ Substitution and income effects ☐ Exceptions: Veblen and Giffen goods ☐ Snob, Veblen and demonstration effects

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 6

Expansion, Contraction and Elasticity of Demand

Chapter 2 Theory of Demand and Supply · Unit 1 · Topics 1.4 – 1.5

Revise in about 19 minutes · Video: Paper 4 Day 6 · Session 1 of your timetable

EXAM IN 60 SECONDS

1 Own price changes: movement along the curve, expansion (price falls) or contraction (price rises).
2 Other factors change: the whole curve shifts, right for increase, left for decrease.
3 Ep = % change in quantity ÷ % change in price, on the original base; read the magnitude.
4 Point: one point, tiny change; arc: two points, large change, average base.
5 0 vertical, 1 rectangular hyperbola, ∞ horizontal; elastic flat, inelastic steep.
6 Inelastic: price up, revenue up. Substitutes, budget share, luxury, uses, time raise elasticity.

ONE LINERS

Topic 1.4 · Expansion, contraction and shifts		
28	★★★	**Expansion = price fall → more demanded (downward movement); contraction = price rise → less demanded (upward movement).**
29	★★	Non-price factors shift the curve: right = increase in demand, left = decrease in demand.
30	★	Leftward shift: rise in a complement's price, fall in a substitute's price, expected price fall, fewer buyers, fall in income (normal goods).
31	★★	Movement along = change in quantity demanded (own price); shift = change in demand (other factors).
Topic 1.5 · Measuring elasticity		
32	★★	Elasticity = % change in Q ÷ % change in a determinant; 'elasticity' alone = price elasticity.
33	★★	PED = (ΔQ/ΔP) × (P/Q) on the original base; sign negative, read the magnitude.
34	★★★	**New Q: ΔQ = Ep × Q × ΔP/P; new P: %ΔP = %ΔQ ÷ Ep.**
35	★★	Point elasticity: infinitesimal change; −(dq/dp) × (p/q) = price–quantity ratio × reciprocal of slope; Q = a − bP → dQ/dP = −b.
36	★★	Linear curve: lower ÷ upper segment; mid-point 1, price-axis end ∞, quantity-axis end 0.
37	★★★	**Arc: two points, large changes, average base — (Q2−Q1)/(Q2+Q1) × (P2+P1)/(P2−P1), sign dropped.**
Topic 1.5 · Values, revenue and determinants		
38	★★★	**Values from 0 to ∞: 0 vertical; < 1 steep; 1 rectangular hyperbola; > 1 flat.**
39	★★	Ep = ∞: horizontal at the price level, touching the vertical axis — perfect competition.
40	★★★	**TR = P × Q; elastic: price up → TR down; unitary: TR same; inelastic: price up → TR up.**
41	★★★	**PED determinants: substitutes, budget share (bigger share → more elastic), luxury vs necessity, number of uses, time, habits, tied demand, price range, minor complements.**
42	★★★	**Habitual consumption and necessities (salt, medicine, vegetables) → inelastic; jewellery → elastic.**
43	★★	More elastic demand → seller bears more of a tax; governments tax inelastic goods for revenue; heavy taxes curb consumption only if ed > 1.

TRAPS TO AVOID

× Do not call a shift 'expansion'. Shift = increase or decrease in demand.

- ✗ 'Change in demand' and 'change in quantity demanded' are not synonyms; the first is a shift.
- ✗ Always divide by the ORIGINAL quantity: 160 ÷ 800, not 160 ÷ 960.
- ✗ Same slope does not mean same elasticity; elasticity depends on p/q too.
- ✗ With large changes, the original base gives a different answer each way; arc uses averages to avoid this.
- ✗ Petrol as a group is inelastic, but one brand like Indian Oil's petrol is elastic.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Movement vs shift ☐ Percentage and ratio method ☐ Point and arc elasticity ☐ Values and curve shapes
☐ Total outlay method ☐ Determinants of elasticity

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 7

Income, Cross and Advertisement Elasticity

Chapter 2 Theory of Demand and Supply · Unit 1 · Topics 1.6 – 1.8

Revise in about 17 minutes · Video: Paper 4 Day 7 · Session 1 of your timetable

EXAM IN 60 SECONDS

1. Ei = % change in quantity demanded ÷ % change in income; keep the sign.
2. Ei > 1 luxury; 0 < Ei < 1 necessity; Ei = 0 unresponsive; Ei < 0 inferior.
3. Same share of income spent means Ei = 1; income elasticity is larger in the long run.
4. Ec = % change in quantity of X ÷ % change in price of Y.
5. Ec positive: substitutes (perfect ∞); zero: unrelated; negative: complements.
6. Ea = % change in demand ÷ % change in ad spending; typically positive, zero to infinity.

ONE LINERS

Topic 1.6 · Income elasticity		
44	★★	Income elasticity = % change in Q ÷ % change in income.
45	★★★	**Ei > 1 luxury; 0 < Ei < 1 necessity (normal); Ei < 0 inferior.**
46	★	Income elasticity differs between short and long run (larger in the long run).
+	★★	Ei numericals: 30% ÷ 20% = 1.5; ₹3,000 → ₹3,600 with 25 → 30 CDs = 20% ÷ 20% = 1.
Topic 1.7 · Cross-price elasticity		
47	★	Cross demand: for substitutes the cross-demand curve slopes upwards.
48	★★★	**Ec = % change in Qx ÷ % change in Py — the sign matters.**
49	★★★	**Substitutes: Ec positive (perfect substitutes ∞); unrelated goods: 0.**
50	★★	Complements: Ec negative (slightly below 0 = weak; very negative = strong); blazer & jacket are not complements.
+	★★★	**Ec numericals: 15% ÷ 10% = +1.5; coffee ₹500 → ₹450, sugar 10 → 15 kg: 50% ÷ −10% = −5.**
Topics 1.7 – 1.8 · Predict and advertise		
51	★	Predict: % change in Qx = Ec × % change in Py.
52	★★★	**Advertisement elasticity = % change in Qd ÷ % change in ad spend; typically positive, 0 to ∞; > 1 = demand rises faster than ad spend.**
+	★	Ea measures the effectiveness of an advertisement campaign in bringing new sales.
+	★★	Ea numericals: 5% ÷ 25% = 0.2; ad spend ₹2 lakh → ₹3 lakh, sales 10 → 20 lakh units = 2.

TRAPS TO AVOID

- ✕ Dropping the minus sign — a negative Ei is the whole point for inferior goods.
- ✕ Calling every positive Ei a luxury — only Ei above one is a luxury.
- ✕ Using the price of X itself — cross elasticity always uses the other good's price.
- ✕ Reading Ec of zero as complements — zero means the goods are totally unrelated.
- ✕ Dividing instead of multiplying when Ec is given and demand change is asked.
- ✕ Putting ad spending on top — demand change always goes in the numerator.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Ei values and type of good ☐ Ei numericals ☐ Sign and size of Ec ☐ Ec numericals and prediction ☐ Advertisement elasticity

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 8

Human Wants, Utility and the Law of DMU

Chapter 2 Theory of Demand and Supply · Unit 2 · Topics 2.0 – 2.3

Revise in about 16 minutes · Video: Paper 4 Day 8 · Session 2 of your timetable

EXAM IN 60 SECONDS

1. A want is a wish or desire for satisfying goods; all wants unlimited, each satiable.
2. Utility is want-satisfying power: subjective, relative, psychological, not usefulness.
3. Wants: necessaries, comforts, luxuries; comforts lie between; categories are not rigid.
4. TU = ∑MU; MU = TUn − TUn−1; at the first unit TU = MU.
5. MU positive: TU rises slowly; MU zero: TU maximum; MU negative: TU falls.
6. Law of DMU: MU, not TU, falls; needs identical, standard units and continuous consumption.

ONE LINERS

Topics 2.0 – 2.1 · Wants and utility		
1	★	Utility = want-satisfying power; relative, subjective — varies with person, time, place.
A1	★	Utility is psychological: different from usefulness; no concern with moral or ethical values.
2	★	Wants: necessaries · comforts · luxuries; comforts lie between necessaries and luxuries.
A2	★	Categorisation is not rigid: one person's luxury may be another's necessity.
Topic 2.2 · TU and MU		
3	★★★	**TU = ∑MU; MU = TUn − TUn−1 = addition to TU; TU = MU at the first unit.**
4	★★	MU falling but +ve → TU rises at diminishing rate; MU = 0 → TU maximum (satiation); MU −ve → TU falls.
A3	★★★	**TU2 = TU1 + MU2 = 200 + 180 = 380; MU3 = TU3 − TU2 = 480 − 380 = 100.**
A4	★	ICAI's keyed name for total utility is 'total satiety' (not an SM term).
Topic 2.3 · Law of diminishing MU		
5	★	Law of DMU: each extra unit adds less; MU (not TU) declines; first unit gives most; each want is satiable.
6	★	Utility measured in utils; MU analysis is cardinal.
7	★	DMU assumptions: identical standard units · habit, taste, income unchanged · continuous consumption · not gold/cash.
A5	★★	MUn = TUn − TUn−1 (108 − 100 = 8); when MU = 0, TU is maximum.

TRAPS TO AVOID

- ✕ Total wants are unlimited, but EACH single want is satiable. Examiners swap these two words.
- ✕ Utility is never absolute or objective. If an option says so, strike it out.
- ✕ To get TU of a unit, add its MU to the previous TU. Do not subtract.
- ✕ At satiation TU is maximum, not zero. It is MU that becomes zero.
- ✕ The law says MARGINAL utility diminishes. An option saying total utility diminishes is wrong.
- ✕ 'Income keeps changing' is NOT an assumption. The law assumes income stays unchanged.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Features of wants and utility ☐ Classification of wants ☐ TU and MU numericals ☐ TU–MU relationship and satiation ☐ Law of DMU and its assumptions ☐ Unit 1 demand and elasticity revision

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 9

Consumer Surplus and Indifference Curve Analysis

Chapter 2 Theory of Demand and Supply · Unit 2 · Topics 2.4 – 2.5

Revise in about 20 minutes · Video: Paper 4 Day 9 · Session 2 of your timetable

EXAM IN 60 SECONDS

1. Consumer surplus = ready to pay − actually pays; net of every discount in numericals.
2. CS comes from diminishing MU; zero on the marginal unit; infinite for necessaries.
3. Price up, CS down; graphically CS is the triangle below demand, above price.
4. IC = equal satisfaction; ordinal (Hicks and Allen); MRS = MUx/MUy diminishes, so IC convex.
5. IC properties: down-sloping, convex, never intersect, higher is better, never touch axes.
6. Equilibrium: budget line tangent to highest IC; MRSxy = MUx/MUy = Px/Py.

ONE LINERS

Topic 2.4 · Consumer surplus		
8	★★★	**Consumer surplus (Marshall) = what consumer is ready to pay − what he actually pays (net of all discounts).**
9	★★★	**CS derived from law of DMU; buys till MU = price; zero surplus on the marginal unit.**
10	★	CS ↔ demand curve; triangular area below demand curve and above price line.
11	★★	Price ↑ → CS ↓; price ↓ → CS ↑.
12	★	CS limitations: not measurable precisely · infinite for necessaries · affected by substitutes.
Topic 2.5 · ICs, MRS and properties		
13	★★	IC analysis = ordinal approach based on preferences; Hicks & Allen.
14	★	'More is better' (non-satiation) = monotonic preferences.
15	★★	IC = combinations giving equal satisfaction (iso-utility); slopes downward to the right.
16	★★	MRS = rate of exchanging X for Y with satisfaction constant = ΔY/ΔX = MUx/MUy; diminishing → convex IC.
17	★★★	**IC properties: slopes down · convex · never intersect · higher = better · never touches axes.**
18	★★★	**Perfect substitutes → straight line; perfect complements → L-shaped (right-angle bend).**
Topic 2.5 · Budget line and equilibrium		
19	★★	Budget line = price line; inside (K) = underspending; outside (H) = unattainable.
20	★★	Intercept = income ÷ price; slope = Px/Py (relative prices).
21	★★	Budget line shifts: income change → parallel; one price change → rotation on that axis (lower IC if price rises).
22	★★★	**Equilibrium: price line tangent to highest IC; MRSxy = MUx/MUy = Px/Py; MUx/Px = MUy/Py.**
23	★	IC superior: no measurability · several goods · no constant MU of money · separates income and substitution effects.

TRAPS TO AVOID

- ✕ In numericals, deduct every discount first; actual price paid is net of all discounts.
- ✕ Do not say a price rise increases surplus; a higher price always gives a smaller surplus.
- ✕ For necessaries the answer is 'infinite', not 'zero'; zero is only the marginal unit's surplus.
- ✕ Monotonic means more of at least one good and no less of the other, not less of it.
- ✕ If goods were perfect substitutes, MRS would stay constant, not diminish.

- ✗ Concave, upward-sloping, intersecting or axis-touching curves are NOT properties; 'which is not a property' questions use them.
- ✗ MRS equals the PRICE ratio Px/Py, not the quantity ratio; keep X on top on both sides.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Consumer surplus numericals ☐ CS, DMU and price link ☐ Ordinal approach and assumptions ☐ MRS and convexity ☐ IC properties and special shapes ☐ Budget line and its shifts ☐ Equilibrium condition

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY
10 Supply, Elasticity of Supply and Equilibrium

Chapter 2 Theory of Demand and Supply · Unit 3 · Topics 3.0 – 3.6

Revise in about 20 minutes · Video: Paper 4 Day 10 · Session 2 of your timetable

EXAM IN 60 SECONDS

1. Supply: willing and able to offer at various prices in a period; a flow, not a stock.
2. Own price change = movement (expansion, contraction); any other factor = shift (increase, decrease).
3. Es = %ΔQs ÷ %ΔP = (Δq/Δp) × (p/q), using original p and q.
4. Point Es = (dq/dp) × (p/q); arc Es uses differences over sums of both points.
5. Vertical supply curve: Es = 0; horizontal: Es = ∞; straight line through origin: Es = 1.
6. Equilibrium where Qd = Qs; above it excess supply pushes price down.

ONE LINERS

Topics 3.0 – 3.4 · Supply, law and shifts		
1	★★	Supply = amount producers are willing and able to offer at various prices in a period; offered, not necessarily sold; a flow.
2	★	Determinants: own price · related goods · factor prices · technology · govt policy · competition · expectations · number of sellers (not consumer preferences).
3	★	Price of Y ↑ → quantity supplied of X ↓ (substitutes in production).
4	★	Law of supply: direct price–quantity relation, ceteris paribus; higher price = higher profit.
5	★	Supply curve holds every factor other than own price constant.
6	★	Own-price change = movement: expansion (price ↑) / contraction (price ↓).
7	★★	Other factor = shift: right = increase, left = decrease; new firms → right; tax, wage costs → left.
Topic 3.5 · Elasticity of supply		
8	★★★	**Es = %ΔQs ÷ %ΔP = (Δq/Δp) × (p/q), original p and q; positive.**
9	★★★	**Measurement: point Es = (dq/dp) × (p/q); arc Es = (Q2 − Q1)/(Q2 + Q1) × (P2 + P1)/(P2 − P1).**
10	★★★	**Es = 0 → vertical (parallel to Y-axis), e.g. land; Es = ∞ → horizontal (parallel to X-axis).**
11	★★	0 < Es < 1 less elastic · Es > 1 greater elastic · Es = 1 unit (line through origin).
12	★★	Es lower: rising costs, complex production, short period, no spare capacity, scarce inputs, non-storable goods.
Topic 3.6 · Equilibrium price		
13	★★	Equilibrium: Qd = Qs; market clearing price; solve Qd = Qs algebraically.
14	★	Producer surplus: price above minimum supply price; area above supply curve, below price line.
15	★	Demand ↓ + supply ↑ → price falls, quantity uncertain (not in SM).
16	★	Short-run price = market price (PYQ-only).

TRAPS TO AVOID

- ✕ Consumer preferences determine demand, not supply: the classic odd-one-out.
- ✕ Contraction means own price fell, not a fall in cost or in a related good's price.
- ✕ Use the original price and quantity, not the new ones.
- ✕ Vertical means zero elasticity, not infinity: students often swap the two.
- ✕ Do not stop at dq/dp = 10; multiply by p/q to finish.

✗ A short period means less elastic supply; the long run lets firms build plants.

✗ Above equilibrium there is excess supply, not excess demand: price falls, not rises.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Meaning and determinants ☐ Movement vs shift ☐ Es formula numericals ☐ Point and arc elasticity ☐ Types of supply elasticity ☐ Equilibrium price

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 11

Meaning and Factors of Production

Chapter 3 Theory of Production and Cost · Unit 1 · Topics 1.0 – 1.1

Revise in about 18 minutes · Video: Paper 4 Day 11 · Session 2 of your timetable

EXAM IN 60 SECONDS

1 Production = creation or addition of utility, never matter; needs intention to exchange in the market.

2 Land: free gift, fixed, permanent, passive, immobile, multiple uses, heterogeneous; never perishable or active.

3 Labour: perishable, active, inseparable, weak bargaining power; supply bends backward beyond a desired income.

4 Capital: produced means of production; circulating = single use, fixed = series of services.

5 Entrepreneur: initiates, bears risk (most important), innovates (Schumpeter); profit is the uncertain reward.

6 Objectives: organic, economic, social, human, national; economic profit is lower than accounting profit.

ONE LINERS

Topics 1.0 – 1.1 · Production and land		
1	★	Production = creation/addition of utility, never creation of matter.
2	★	Production includes services (doctors, actors); excludes love-and-affection work, voluntary services, self-consumption — intention to exchange in the market is essential.
3	★	Four factors: land, labour, capital, entrepreneurial ability.
4	★★★	**Land (7): free gift · fixed supply · permanent/indestructible (Ricardo) · passive · immobile · multiple uses · heterogeneous. NOT perishable, active or homogeneous.**
5	★	Land supply: perfectly inelastic for the economy; relatively elastic for a firm.
Topic 1.1 · Labour and capital		
6	★★	Labour: perishable · active · inseparable · heterogeneous · not all productive · weak bargaining power · mobile · NO rapid supply adjustment.
7	★	Backward-bending labour supply: beyond a desired income, leisure preferred to more money.
8	★	Capital = wealth used for further production of wealth; produced means of production; stock concept.
9	★★★	**Fixed = series of services; Circulating = single use (seeds, fuel, raw materials); Intangible = goodwill, patents, copyrights; Social = roads, bridges.**
Topic 1.1 · The entrepreneur		
10	★★	Entrepreneur: initiating & resource co-ordination (first) · risk/uncertainty bearing · innovations — not day-to-day supervision.
11	★	Profit = uncertain residual reward of the entrepreneur after contractual payments.
12	★	Risk bearing = most important function (cannot be delegated); Knight: profit rewards uncertainty.
13	★★	Schumpeter: innovation = the entrepreneur's true function; 'innovative entrepreneurship'.
Topic 1.1 · Enterprise objectives and problems		
14	★	Objectives: Organic (survive by recovering costs → growth) · Economic · Social · Human · National.
15	★	Accounting profit = TR – explicit costs; economic profit also deducts implicit costs → generally lower.
16	★	Human: job contents interesting & challenging; National: train apprentices for skill formation.

17	★	4 P's: Product, Promotion, Price, Place.

TRAPS TO AVOID

- ✕ 'Creation of matter' is always wrong: production creates or adds utility to matter.
- ✕ Land is NOT perishable, NOT active and NOT homogeneous: these are the classic 'not true' options.
- ✕ 'Rapid adjustment of labour supply to demand' is NOT a feature: labour supply cannot change instantly.
- ✕ Seeds, fuel and raw materials are circulating capital; a series of services over time means fixed capital.
- ✕ Supervising day-to-day production is a manager's task, not a necessary entrepreneurial function.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Meaning of production ☐ Features of land ☐ Features of labour ☐ Types of capital ☐ Entrepreneur's functions ☐ Enterprise objectives

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 12

Production Function and Production Optimisation

Chapter 3 Theory of Production and Cost · Unit 1 · Topics 1.2 – 1.3

Revise in about 21 minutes · Video: Paper 4 Day 12 · Session 2 of your timetable

EXAM IN 60 SECONDS

1. Production function: technical relationship; maximum output from given inputs and given technology.
2. Cobb-Douglas: labour 3/4, capital 1/4; a + b > 1, = 1, < 1 means IRS, CRS, DRS.
3. Law of variable proportions = diminishing returns = returns to a variable input; short run only.
4. MPn = TPn – TPn–1; AP = TP ÷ units; MP max at inflexion, MP = AP at AP max.
5. Stage 2 ends where TP is maximum and MP is zero; rational producer always works in Stage 2.
6. Isoquant: equal output, convex, non-intersecting; least cost where isoquant touches iso-cost line.

ONE LINERS

Topic 1.2 · Production function and the law		
19	★★★	**Production function = technical relationship inputs → output; Samuelson: maximum output from given inputs, given technology; or minimum inputs for a given output.**
20	★	Short run: at least one input fixed; long run: all inputs variable.
21	★★	Cobb-Douglas: Q = K·L^a·C^(1–a); US manufacturing; inputs labour & capital; labour ≈ 3/4, capital ≈ 1/4.
22	★★	Law of variable proportions = law of diminishing returns = returns to a variable input; short run only.
25	★	LVP assumptions: technology unchanged · some input fixed · not fixed proportions · physical terms only.
Topic 1.2 · TP, AP, MP and the three stages		
23	★★★	**MPn = TPn – TPn–1 (slope of TP); AP = TP ÷ units; TP = ΣMP = AP × units — build the schedule first.**
24	★★	AP rising → MP > AP; AP maximum → MP = AP; AP falling → MP < AP.
26	★★★	**Point of inflexion → MP maximum; TP flattening → diminishing marginal returns begin.**
27	★★★	**Stages: increasing · diminishing · negative returns; TP falls and MP < 0 only in Stage 3; Stage 2 ends at TP maximum (MP = 0).**
28	★	Increasing returns: fuller use & indivisibility of fixed factor, efficiency of variable factor; diminishing: fixed factor inadequate.
29	★★	Rational producer: Stage 2 only; Stages 1 & 3 = 'economic absurdity'.
Topic 1.2 · Returns to scale		
30	★	Laws of production ≠ least-cost combination (that is production optimisation).
31	★★	Returns to scale: all inputs changed in the same proportion; long run only.
32	★★★	**CRS = linear homogeneous production function; IRS > proportionate; DRS < proportionate; sequence IRS → long CRS → DRS.**
33	★★	Cobb-Douglas: a + b > 1 IRS, = 1 CRS, < 1 DRS; original form assumed CRS.
Topic 1.3 · Production optimisation		
35	★★	Isoquant = equal-product / iso-product curve: combinations giving the same output.
36	★★	Isoquants: negatively sloped, convex to origin (diminishing MRTS), non-intersecting.
37	★★	Iso-cost = budget line: combinations bought with a given outlay; straight line at given factor prices.

38	★	Least-cost combination: isoquant tangent to iso-cost; MRTS_LK = MP_L/MP_K = P_L/P_K.

TRAPS TO AVOID

- ✕ In this equation K is a constant, not capital; capital is C.
- ✕ The law does not operate in the long run, when all factors can be changed together.
- ✕ 'All units of the variable factor are different' is not an assumption of the law.
- ✕ AP equals MP at the maximum of AP, not at the maximum of MP.
- ✕ 'Limitation of the fixed factor' explains diminishing returns, not increasing returns.
- ✕ Increasing returns to scale (long run) is not the same as increasing marginal returns (short run).
- ✕ Do not count the constant in front (4 here); add only the exponents.
- ✕ The least-cost combination is production optimisation, not a law of production.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Production function and Cobb-Douglas ☐ TP, AP, MP numericals ☐ AP–MP relationship ☐ Three stages and point of inflexion ☐ Returns to scale ☐ Isoquants and iso-cost lines

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 13

Cost Concepts: Explicit, Implicit, Sunk and More

Chapter 3 Theory of Production and Cost · Unit 2 · Topic 2.0

Revise in about 15 minutes · Video: Paper 4 Day 13 · Session 2 of your timetable

EXAM IN 60 SECONDS

1. Accounting cost is explicit cost — cash paid to outsiders and recorded in the books.
2. Economic cost = explicit + implicit; so accounting cost is less than economic cost.
3. Implicit cost = normal return on own capital (capital × normal rate) + owner's foregone salary.
4. Normal profit is part of implicit cost; TR just covering economic cost means zero economic profit.
5. Opportunity cost = next best alternative foregone, not recorded; outlay cost = actual expenditure, recorded.
6. Sunk costs are unrecoverable and a barrier to entry; fixed costs vanish only on complete close-down.

ONE LINERS

Topic 2.0 · Accounting, economic and implicit costs		
1	★★	Accounting cost = explicit = cash payments (wages, materials, fuel, rent, interest on borrowings); recorded in the books.
2	★★	Economic cost = explicit + implicit; accounting cost < economic cost.
3	★★★	**Implicit = own capital's normal return + entrepreneur's foregone salary; own input → explicit cost zero; ₹ capital × normal rate.**
4	★★	Normal profit is part of implicit cost; TR = explicit + implicit → zero economic profit; supernormal only above it.
5	★★	Accounting profit = TR − explicit; economic profit = TR − explicit − implicit; implicit = business profit − economic profit.
Topic 2.0 · Outlay, opportunity, sunk and fixed costs		
6	★★★	**Outlay cost = actual expenditure, recorded in books; opportunity cost = next best alternative foregone, not recorded, useful in long-term calculations.**
7	★	Incremental = extra cost of a decision (new product line, new machinery, new clients).
8	★★★	**Sunk = incurred once and for all, unrecoverable (advertising, R&D, specialised equipment, railway lines); barrier to entry; irrelevant to decisions.**
9	★★	Fixed costs inescapable till close-down; shut down costs continue even after suspension; casual wages and raw materials are variable.

TRAPS TO AVOID

- ✗ Do not add the explicit cost when the question asks only for the implicit cost of own capital.
- ✗ Zero economic profit does not mean no profit — normal profit is still being earned.
- ✗ Accounting profit deducts explicit costs only, never implicit costs.
- ✗ Opportunity cost is not marginal, variable or fixed cost — it is the missed alternative.
- ✗ In sunk-cost sums add only SM-listed sunk items; wages, fuel and power are running costs.
- ✗ Social cost is not separate from private cost — it includes private cost plus external cost.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Explicit vs implicit cost ☐ Economic cost and normal profit ☐ Accounting vs economic profit ☐ Opportunity vs outlay cost ☐ Sunk and incremental costs ☐ Fixed vs variable costs

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY
14 Cost Function and Short Run Costs

Chapter 3 Theory of Production and Cost · Unit 2 · Topics 2.1 – 2.2

Revise in about 16 minutes · Video: Paper 4 Day 14 · Session 2 of your timetable

EXAM IN 60 SECONDS

1. Cost function: cost depends on factor prices, output, technology, capacity use, efficiency, time; not output price.
2. Short run has fixed and variable costs; in the long run all costs are variable.
3. TC = TFC + TVC; TFC = TC at zero output = the constant term.
4. AFC = TFC ÷ Q falls throughout, never touches the X-axis, never U-shaped.
5. AVC, ATC and MC are U-shaped; ATC = AFC + AVC = TC ÷ Q.
6. MCn = TCn − TCn−1, independent of fixed cost; MC cuts AVC and ATC at their minima.

ONE LINERS

Topics 2.1 – 2.2 · Cost function and kinds of cost		
10	★★	Cost function = functional relation between cost and its determinants (factor prices, output, technology, capacity use, efficiency, time) — not output price; shapes the cost curves.
11	★	Short run: only variable factors change; long run: all factors, so all costs, variable.
12	★★	Fixed · variable · semi-variable (electricity); stair-step = fixed over a range, then jumps (foreman).
13	★★★	**TC = TFC + TVC; TC − TVC = TFC (vertical gap); TFC = constant term of the cost function.**
Topic 2.2 · Cost curves, AFC and AVC		
14	★★	TFC horizontal from Y-axis; TVC from origin, inverse-S — rises at an increasing rate once diminishing returns set in.
15	★★★	**AFC = TFC ÷ Q: falls throughout, never touches X-axis, never U-shaped.**
16	★★★	**AFC sums: TFC = TC at Q = 0 (or AFC × Q), then ÷ new Q.**
17	★★★	**AVC = TVC ÷ Q = ATC − AFC; falls (increasing returns) then rises (diminishing returns).**
Topic 2.2 · ATC, MC and the AC–MC link		
18	★★★	**ATC = AFC + AVC = TC ÷ Q; U-shaped; ATC and AVC converge as AFC shrinks.**
19	★★★	**MCn = TCn − TCn−1 = ΔTVC; over steps, ΔTC ÷ ΔQ; independent of fixed cost.**
20	★★	MC U-shaped (law of variable proportions); diminishing returns begin where MC starts rising.
21	★★★	**AC falling → MC < AC; AC rising → MC > AC; AC minimum → MC = AC (MC cuts AC and AVC at their minima).**

TRAPS TO AVOID

- ✕ The price of the firm's own output is not a determinant of its cost function.
- ✕ Electricity is semi-variable; the extra foreman's salary is stair-step. Students swap these two.
- ✕ Putting a value of Q into the whole cost function gives TC, not TFC.
- ✕ When only TC is given, remove TFC (TC at zero output) before dividing by Q.
- ✕ A change in fixed cost does not change MC; MC is ΔTC ÷ ΔQ, never TC itself.
- ✕ Diminishing returns begin where MC stops falling and starts rising, not where ATC is lowest.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Cost function and determinants ☐ Fixed, variable and semi-variable costs ☐ TC, TFC and TVC ☐ AFC behaviour and sums ☐ AVC and ATC numericals ☐ Marginal cost ☐ AC–MC relationship

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 15

Long Run Average Cost and Economies of Scale

Chapter 3 Theory of Production and Cost · Unit 2 · Topics 2.3 – 2.4

Revise in about 15 minutes · Video: Paper 4 Day 15 · Session 3 of your timetable

EXAM IN 60 SECONDS

1 SACs are plant curves; the LAC is the envelope curve and the planning curve.
2 LAC is tangent to every SAC, but not at their minimum points, except at optimum output OQ.
3 U-shaped LAC comes from returns to scale, not from the law of variable proportions.
4 Economies (internal and external) make LAC fall; diseconomies make it rise.
5 Internal: technical, managerial, commercial, financial, risk-bearing; localisation and skilled labour are external.
6 External diseconomy: industry expansion raises input demand and factor prices; shut down when P < AVC.

ONE LINERS

Topic 2.3 · The LAC curve		
22	★★★	**SACs = plant curves; LAC = envelope (tangent to each SAC, not at their minima) = planning curve.**
A1	★	The firm operates in the short run and plans for the long run.
A2	★★	LAC envelopes the SACs from below but is not tangent to their minimum points.
23	★★	LAC U-shape from returns to scale: economies (internal + external) → falling; diseconomies → rising.
A3	★★	The U shape of the LAC is due to returns to scale, not the variable factor ratio.
Topic 2.4 · Economies and diseconomies		
24	★	Internal economies: within the firm, exclusive to it — first economies, then diseconomies.
25	★★★	**Internal kinds: technical · managerial · commercial (bulk buying, by-products) · financial · risk-bearing.**
A4	★★★	**Supply of skilled labour and localisation of industry are external, not internal.**
26	★★★	**External (industry expansion): cheaper materials · technology · skilled labour · ancillary industries · transport & marketing · information.**
27	★	External diseconomy: rising input demand → higher factor prices (and vice versa).

TRAPS TO AVOID

× Do not say LAC touches the minimum points of the SACs; only SAC4 at OQ is used at its minimum.
× Envelope curve is never the SAC, AFC or AVC curve: all three are short run curves.
× LAC's U shape is not due to the variable factor ratio (law of variable proportions); that explains the SAC.
× If the benefit comes from the industry growing, it is external, even though the firm enjoys it.
× Localisation of industry and supply of skilled labour are external economies, not internal ones.
× Economies of scope come from more products; economies of scale come from more output.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ LAC: envelope and planning curve ☐ Tangency and optimum output OQ ☐ U shape and returns to scale ☐ Internal economies and diseconomies ☐ External economies and diseconomies ☐ Shut-down rule (Scanner only)

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 16

Meaning of Market and Classification of Markets

Chapter 4 Price Determination in Different Markets · Unit 1 · Topic 1.0

Revise in about 16 minutes · Video: Paper 4 Day 16 · Session 3 of your timetable

EXAM IN 60 SECONDS

1 Free goods have zero price; economic goods are scarce and command a price.
2 Price = money-value = exchange value; Ricardo: command over commodities in general.
3 Market = buyers and sellers who influence price; five elements, not volume of business.
4 Six bases: area, time, transaction, regulation, volume of business, competition.
5 Marshall's time: very short (supply fixed), short, long (normal price), very long (secular).
6 Spot now, forward later; regulated stock exchange, free Haat Bazaar; wholesale B2B, retail B2C.

ONE LINERS

Topic 1.0 · Price, value and market		
1	★	Price = money-value; prices express exchange value; Ricardo: command over commodities in general; Economics deals only with exchange value.
2	★	Market = buyers and sellers with the potential to trade who influence price; need not be a formal place.
3	★★★	**Five elements: buyers & sellers · product/service · bargaining for a price · knowledge of market conditions · one price at a given time (NOT volume of business, advertisement, firm, multiple prices).**
4	★	Product markets (households buy from firms) vs factor markets (firms buy land, labour, capital, entrepreneurship).
Topic 1.0 · Bases: area and time		
5	★	Six bases: area · time · nature of transaction · regulation · volume of business · competition.
6	★★	Area: local · regional (adjacent cities / cluster of states) · national (trade policy keeps trade within the country) · international (gold, silver).
7	★★	Time element conceived by Alfred Marshall.
8	★★	Time: very short = market period (supply fixed, perishables) · short · long ('normal price') · very long = secular period.
A1	★★	Very short period: supply is fixed, so price depends on demand; long-run equilibrium price is the 'normal price'.
Topic 1.0 · Transaction, regulation, volume		
9	★★★	**Nature of transaction: spot/cash (immediate payment; mandi grain) vs forward/future (future delivery; forex contract from a bank).**
10	★	Regulation: regulated (stock exchange) vs unregulated = free market, no stipulations (Haat Bazaar).
11	★★	Volume of business: wholesale (bulk, B2B) vs retail (small quantities, B2C).
A2	★	Regulated market: transactions statutorily regulated to put an end to unfair practices.

TRAPS TO AVOID

× A market is not just a physical place; newspaper adverts and online shops are markets too.
× Volume of business is a basis of classifying markets, not an element of a market.

- ✗ Regional means a few adjacent cities or a cluster of states, not the whole country.
- ✗ Do not confuse secular period with very short period; secular means very long.
- ✗ 'Free market' here means unregulated, not spot; look for 'no stipulations' in the question.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Price and exchange value ☐ Elements of a market ☐ Product vs factor markets ☐ Area-based markets ☐ Marshall's time periods ☐ Spot vs forward markets ☐ Regulation and volume of business

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 17

Market Structures and Revenue Concepts

Chapter 4 Price Determination in Different Markets · Unit 1 · Topics 1.1 – 1.2

Revise in about 20 minutes · Video: Paper 4 Day 17 · Session 3 of your timetable

EXAM IN 60 SECONDS

1. Four forms: perfect competition, monopolistic competition, oligopoly, monopoly; infinite firm elasticity only in perfect competition.
2. Market type depends on nature of commodity, size of production and extent of demand.
3. TR = P × Q; AR = TR/Q = P, so the AR curve is the demand curve.
4. MR = ΔTR/ΔQ; with P and Q given, compute TR first; TR = ΣMR.
5. TR is maximum where MR = 0 and e = 1; MR = AR × (e − 1)/e.
6. Shut down if P < AVC; profit is maximum where MR = MC.

ONE LINERS

Topic 1.1 · Types of market structures		
12	★	Market share = firm's demand as a percentage of industry demand.
13	★	Four forms: perfect competition · monopolistic competition · oligopoly · monopoly; firm's elasticity of demand infinite only under perfect competition.
14	★	Type of market depends on nature of commodity, size of production, extent of demand.
15	★★	Downward-sloping market demand fits every structure — structure cannot be inferred from it.
Topic 1.2 · TR, AR and MR		
16	★★	TR = P × Q; competitive firm's TR is a straight line from the origin.
17	★★★	**AR = TR/Q = P; AR curve = firm's demand curve.**
18	★★★	**MR = ΔTR/ΔQ; MRn = TRn − TRn−1; from P and Q compute TR first; MR can be zero or negative.**
19	★	TR = ΣMR.
20	★	Falling AR → MR < price, MR below AR; AR never zero, MR can be zero or negative.
21	★★★	**TR rises at a diminishing rate (diminishing MR), is maximum when MR = 0, falls when MR < 0.**
22	★	Perfect competition: AR = MR, both horizontal and coincident.
Topic 1.2 · Elasticity link and behavioural principles		
23	★★★	**MR = AR × (e − 1)/e — take e as a positive number.**
24	★★	e = 1 → MR = 0; e > 1 → MR positive; e < 1 → MR negative.
25	★★	TR is maximum where e = 1.
26	★★	Principle 1: shut down if TVC not covered (P < AVC); at the shut-down point P = AVC, TR = TVC, loss = TFC.
27	★★★	**Principle 2: maximum profit at MR = MC (first-order condition); MR slopes down, MC slopes up.**

TRAPS TO AVOID

- ✕ Monopolistic competition differs from perfect competition in only one respect: products are differentiated, not identical.
- ✕ Extent of demand is a factor, extent of supply is not: one swapped word makes the option wrong.
- ✕ AR is not TR divided by price; divide TR by quantity sold.
- ✕ Exam gives P and Q? Do not subtract prices; compute TR at each point, then find the change.
- ✕ Under imperfect competition MR can be zero, but AR (price) cannot be zero.

- ✗ A negatively sloped market demand curve does not tell you the market structure.
- ✗ Do not put e in as a negative number; that gives ₹60 instead of ₹30.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Market forms and Table 1 ☐ TR, AR and MR numericals ☐ TR maximum and MR = 0 ☐ MR = AR (e − 1)/e ☐ Shut-down point ☐ MR = MC profit rule

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY
18

Determination of Prices: Equilibrium and Shifts

Chapter 4 Price Determination in Different Markets · Unit 2 · Topics 2.0 – 2.3

Revise in about 16 minutes · Video: Paper 4 Day 18 · Session 3 of your timetable

EXAM IN 60 SECONDS

1 Price expresses exchange value; factor prices are rent, wages, interest and profit.
2 Equilibrium (market clearing) price: Qd = Qs, no unsold stock, no unsupplied demand.
3 Above equilibrium: surplus, price falls. Below: shortage, price rises. Stable equilibrium restores itself.
4 Demand shifts move price and quantity together; supply shifts move price the opposite way.
5 Same-direction shifts: quantity certain, price uncertain; equal increases leave price unchanged.
6 Opposite shifts: price follows demand, quantity uncertain. Floor above equilibrium, ceiling below.

ONE LINERS

Topics 2.0 – 2.1 · Price and equilibrium		
1	★★	Prices express exchange value; factor prices = rent, wages, interest, profit.
2	★★★	**Government may fix prices (procurement/support prices); floor above equilibrium; ceiling below equilibrium → shortages, allocation problems, black marketing.**
3	★	Equilibrium = market clearing price: Qd = Qs, no unsold stock, no unsupplied demand.
4	★	Price above equilibrium → surplus → price falls; below → shortage → price rises (stable equilibrium).
Topics 2.2 – 2.3 · Shifts in demand and supply		
5	★	Non-price factors shift curves: right = increase, left = decrease.
6	★★	Demand ↑ → P ↑, Q ↑; expected future price rise shifts demand right.
7	★	Demand ↓ → P ↓, Q ↓.
8	★★	Supply ↑ → P ↓, Q ↑; Supply ↓ → P ↑, Q ↓.
9	★★★	**Same direction: quantity certain, price uncertain; equal shifts leave price unchanged; the larger shift decides price.**
10	★★	Opposite directions: price certain (moves with demand), quantity uncertain.
11	★★	Illustration 1: D2+S3 = point 2; D2+S2 = point 7; S3 alone = point 3; D2 alone = point 5.

TRAPS TO AVOID

× Floor sounds low and ceiling sounds high, yet the floor sits above equilibrium and the ceiling below it.
× Selling price or asking price is any quoted price; only the clearing price equates Qd and Qs.
× Excess demand means equilibrium price is greater than market price, not the other way round.
× The supply curve does not shift here; quantity supplied rises by a movement along it.
× Less supply does not mean a lower price: scarcity pushes the price up.
× 'Price constant' is right only when the two increases are exactly equal.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Price and government pricing ☐ Equilibrium and market clearing ☐ Surplus and shortage ☐ Single shifts ☐ Same-direction shifts ☐ Opposite-direction shifts ☐ Illustration 1 points

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 19

Perfect Competition: Price, Output and Profit

Chapter 4 Price Determination in Different Markets · Unit 3 · Topic 3.0

Revise in about 19 minutes · Video: Paper 4 Day 19 · Session 3 of your timetable

EXAM IN 60 SECONDS

1. Pure competition: many buyers and sellers, homogeneous product, free entry and exit; perfect adds three more.
2. Not features: selling costs, advertising, inelastic demand, 'absence of transport cost'.
3. Industry price comes from market demand and supply; the firm is a price taker with horizontal demand.
4. AR = MR = P only under perfect competition; equilibrium: MR = MC, MC cutting from below.
5. Supply curve = MC above minimum AVC; price below AVC means shut down.
6. Short run: profit, normal profit or loss; long run: normal profit only, LMC = LAC = P.

ONE LINERS

Topic 3.0 · Features and price-taking		
1	★★	Perfect competition: large number of buyers and sellers · homogeneous products (perfect substitutes) · free entry and exit = pure competition; + perfect knowledge · very low transaction costs · price-taking = perfect competition.
2	★★★	**NOT perfect competition: selling costs, advertising, inelastic demand, inefficient allocation; 'absence of transport cost' is not an SM condition.**
3	★	Perfect competition is a myth; agricultural products, financial instruments and precious metals come close.
4	★★★	**Firms are price takers: no control over price; industry price set by market demand = market supply.**
5	★★★	**Firm's demand (AR) = horizontal line, parallel to X-axis, infinitely elastic; but the market demand curve still slopes down.**
6	★★	AR = MR = P only under perfect competition.
Topic 3.0 · Equilibrium, supply and shut-down		
7	★★★	**Equilibrium: MR = MC and MC cuts MR from below (MC positive slope).**
8	★	MR > MC → expand output; MR < MC → reduce output.
9	★★	Short-run supply curve = MC above minimum AVC.
10	★★	Price < AVC (TR < TVC) → shut down.
15	★★	P = MC only under perfect competition; monopoly charges more and supplies less (P > MC; no unique supply curve).
16	★	Elasticity of supply 'infinite' under intense competition — ICAI key only; SM speaks of demand.
Topic 3.0 · Profits and the long run		
11	★★	Normal profit: AR = ATC (zero economic profit); supernormal: AR > ATC; loss: ATC > AR — all possible in the short run.
12	★★	Long run: entry and exit leave only normal profit.
13	★	Long-run equilibrium: LMC = LAC = P; LAR = LMR = P = LMC = LAC.
14	★★	Long-run optimality: minimum cost, P = MC, full capacity, no wastage, no excess capacity, optimum number of firms.
17	★	Normal profit is an implicit cost, not part of accounting cost; TFC = TC – TVC.

TRAPS TO AVOID

- ✕ 'Absence of transport cost' sounds right, but it is not an SM condition of pure or perfect competition.
- ✕ Only the firm's demand curve is horizontal; the market demand curve DD still slopes downward.
- ✕ A firm earning supernormal profit still has AR = MR; the level of profit does not change this equality.
- ✕ Normal profit is not 'no reward': the entrepreneur's normal return is already included in the cost of production.
- ✕ Do not read the change in TC as MC; output rises in steps of 10, so divide the change by 10.
- ✕ 'All firms earn supernormal profit in the long run' is false; free entry and exit leave only normal profit.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Features: pure vs perfect ☐ Price taker: horizontal AR = MR ☐ Equilibrium: MR = MC, MC from below ☐ Supply curve and shut-down rule ☐ Normal, supernormal profit and loss ☐ Long-run equilibrium and optimality

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY
20 Monopoly and Price Discrimination

Chapter 4 Price Determination in Different Markets · Unit 3 · Topic 3.1

Revise in about 20 minutes · Video: Paper 4 Day 20 · Session 3 of your timetable

EXAM IN 60 SECONDS

1. Monopoly: single seller, no close substitutes; firm = industry; its demand curve is the market demand curve.
2. Barriers to entry are the fundamental cause: patents, government rights, scarce resources, natural monopoly.
3. AR and MR slope down; MR slope is twice AR's; AR never zero, MR can be zero or negative.
4. Equilibrium at MC = MR; short-run losses possible; long-run supernormal profit persists because entry is blocked.
5. Discrimination needs price power, sub-markets, different elasticities and no resale; impossible under perfect competition.
6. MR = AR(1 – 1/e); higher price in less elastic market; Pigou: person, quantity, group.

ONE LINERS

Topic 3.1 · Meaning, features and causes		
19	★★	Monopoly = single seller, no close substitutes; features: single seller · barriers to entry · no close substitutes · market power.
20	★★★	**Barriers to entry = fundamental cause: patents and copyrights, government rights, scarce resources, natural monopoly; entry restricted at all times; nuclear power = government monopoly.**
21	★★★	**Cross elasticity zero or very small; price elasticity < 1; steep downward-sloping AR.**
22	★★	Firm = industry; monopolist's demand = market demand.
23	★★	Control over price: very considerable under monopoly; price maker.
Topic 3.1 · Revenue, equilibrium and effects		
24	★★	MR < AR; MR slope = 2 × AR slope; AR cannot be zero, MR can be zero or negative.
26	★	Monopolist can make short-run losses (ATC > AR).
27	★★★	**Long run: no continuing losses; supernormal profit persists because entry is blocked.**
28	★	Market power = price above MC with positive profit.
29	★★	Effects of monopoly: higher price, lower output, unjust profits → government regulates and prevents monopolies.
Topic 3.1 · Price discrimination: meaning and conditions		
30	★★	Price discrimination: different prices for different units of the same commodity, not cost-based; simple vs discriminating monopoly (dynamic fares).
31	★★	Price discrimination needs monopoly; impossible under perfect competition.
32	★★★	**Conditions: price-setting power · separable sub-markets · different elasticities (profitable only then) · no resale.**
33	★★	Objectives: maximum profit, dispose of surplus stock, economies of scale, capture foreign markets, equity through pricing.
Topic 3.1 · Numericals, degrees and equilibrium		
25	★★	MR = AR(1 – 1/e); AR = MR·e/(e – 1); shift output to the market with the higher MR.
34	★★★	**Pigou's degrees: 1st = each individual consumer (entire surplus); 2nd = quantities sold; 3rd = location or customer segment.**

35	★★★	**Third-degree examples: dumping; domestic vs commercial (rural vs industrial) electricity; railway senior-citizen fares.**
36	★	Discriminating monopolist decides total output, its split (equal MRs) and the prices (higher where demand is less elastic).

TRAPS TO AVOID

- ✕ Barriers to entry are the fundamental cause of monopoly; free entry is never a monopoly feature.
- ✕ MR being zero or negative does not make AR zero; price stays positive throughout.
- ✕ A monopolist does not always earn profit; with low demand and ATC > AR it incurs losses.
- ✕ 'Normal profit only' in the long run is perfect competition, not monopoly.
- ✕ Discrimination cannot persist under perfect competition: the seller has no influence over the market price.
- ✕ The higher price goes to the LESS elastic market, not the more elastic one.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Features and barriers to entry ☐ Monopolist's AR and MR ☐ Short- and long-run equilibrium ☐ Conditions for price discrimination ☐ MR = AR(1 − 1/e) numericals ☐ Pigou's degrees and examples

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 21

Monopolistic Competition: Features and Equilibrium

Chapter 4 Price Determination in Different Markets · Unit 3 · Topic 3.2

Revise in about 15 minutes · Video: Paper 4 Day 21 · Session 3 of your timetable

EXAM IN 60 SECONDS

1 Monopolistic competition: many sellers selling differentiated products that are close, not perfect, substitutes.
2 Four features: many sellers, product differentiation, free entry and exit, non-price competition.
3 Examples: soaps, toothpaste, restaurants, hotels, clothing, retail shops, repair shops, beauty parlours.
4 Demand slopes down but is relatively elastic; MR lies below; monopoly's demand is steeper.
5 Equilibrium: MC = MR and MC cuts MR from below; short run may give profit or loss.
6 Long run: normal profit only, on the falling part of AC, with excess capacity; selling costs huge.

ONE LINERS

Topic 3.2 · Features, examples and selling costs		
37	★★	Monopolistic competition: many sellers, differentiated close substitutes, free entry, non-price competition.
38	★★	Product differentiation = main feature; it is the only difference from perfect competition.
39	★★★	**Examples: soaps and detergents, toothpaste, restaurants, hotels, repair shops, clothing, retail.**
40	★★	Non-price competition and huge selling costs → monopolistic competition.
41	★	Chamberlin (USA): theory of monopolistic competition; selling cost vs production cost.
Topic 3.2 · Demand curve, equilibrium and long run		
42	★★★	**Demand curve downward sloping, relatively elastic; MR below it; monopoly's demand curve is steeper.**
43	★	Short run: normal profit, supernormal profit or loss.
44	★	Long run: normal profit only (as in perfect competition).
45	★	Long run: never at minimum LAC → excess capacity, not of optimum size.
46	★★★	**Differentiated products: monopolistic competition and oligopoly.**

TRAPS TO AVOID

× Toothpaste brands, restaurants and hotels are monopolistic competition, not oligopoly or perfect competition.
× Differentiated products also exist in oligopoly; count the sellers before you answer.
× Huge selling costs mean monopolistic competition; monopoly has generally low selling costs, only to inform.
× MC = MR alone is not enough; MC must also cut MR from below.
× Supernormal profit in the long run belongs to monopoly, not monopolistic competition.
× The firm never produces at minimum LAC; that happens only under perfect competition.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Features and examples ☐ Product differentiation and selling costs ☐ Demand curve and MR ☐ Short-run equilibrium ☐ Long run: normal profit and excess capacity ☐ Comparison with other markets

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY
22 Oligopoly and Other Market Forms

Chapter 4 Price Determination in Different Markets · Unit 3 · Topic 3.3

Revise in about 20 minutes · Video: Paper 4 Day 22 · Session 4 of your timetable

EXAM IN 60 SECONDS

1 Oligopoly: competition among the few, 2 to 10 sellers, homogeneous or differentiated products.

2 Most important feature: strategic interdependence; also heavy selling costs and group behaviour, never free entry.

3 Types: pure/imperfect, open/closed, collusive/competitive, partial/full, syndicated/organised.

4 Demand under oligopoly is indeterminate; game theory is Neumann and Morgenstern, 1944.

5 Cartel = explicit collusion, OPEC; price leaders are dominant, low-cost or barometric firms.

6 Sweezy's kinked curve: elastic above, inelastic below, sticky prices; bilateral monopoly = one buyer, one seller.

ONE LINERS

Topic 3.3 · Meaning, examples and types		
46	★★★	**Differentiated products: monopolistic competition and oligopoly.**
47	★★★	**Oligopoly = competition among the few (2–10), homogeneous or differentiated, strong barriers to entry, price makers.**
48	★★★	**Oligopoly examples: cold drinks, automobiles, airlines, telecom, ISPs, smartphones; OPEC = best example of a cartel.**
49	★	Game theory: Von Neumann and Oskar Morgenstern (1944).
50	★★★	**Pure/perfect (homogeneous: aluminium) vs imperfect (differentiated: talcum powder); open vs closed.**
51	★★★	**Collusive vs competitive; partial (one dominant leader) vs full; syndicated (central syndicate) vs organised (central association).**
Topic 3.3 · Features, cartels and leaders		
52	★★★	**Characteristics: strategic interdependence (most important) · advertising and selling costs · group behaviour — no free entry.**
53	★	Oligopoly demand curve is indeterminate.
54	★	Oligopoly price lies between competitive and monopoly price (PYQ-only).
55	★★★	**Cartel = explicit collusion; few firms of similar size; subset of producers; aim to raise price; impossible with many firms.**
56	★★	Price leadership: dominant firm (live and let live) · low-cost firm · barometric (experienced firm reads market conditions).
Topic 3.3 · Kinked demand curve		
57	★★★	**Kinked demand curve: Paul A. Sweezy; explains price rigidity.**
58	★★	Kink at prevailing price: upper segment elastic, lower inelastic.
59	★	Rivals follow a price cut but not a price rise.
60	★	Chamberlin and kinked models: recognised interdependence, no collusion, stable prices.
Topic 3.3 · Other market forms		
61	★★	Duopoly = two firms, a subset of oligopoly.
62	★★	Monopsony = single buyer; oligopsony = few large buyers (factor markets).
63	★★★	**Bilateral monopoly = single buyer + single seller = monopoly + monopsony.**

64	★	Zero-sum game: competition for market share.

TRAPS TO AVOID

- ✕ OPEC is the SM's best example of a cartel, an agreement among oligopolists; do not call it a monopoly.
- ✕ Game theory is Von Neumann and Morgenstern (1944); the kinked demand curve is Sweezy. Do not swap the names.
- ✕ A firm that ignores its rivals, or wrongly assumes their behaviour, is likely to suffer a setback in profits.
- ✕ Cournot firms control output; Bertrand firms control price. Students often swap the two.
- ✕ 'Live and let live' belongs to dominant-firm leadership, not to barometric leadership.
- ✕ Monopsony is one buyer; oligopsony is a few large buyers; bilateral monopoly is one buyer and one seller together.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Meaning and examples of oligopoly ☐ Types of oligopoly ☐ Features and interdependence ☐ Cartels and price leadership ☐ Kinked demand curve ☐ Duopoly, monopsony, bilateral monopoly ☐ Revision: earlier days

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 23

Business Cycles: Meaning, Phases and Indicators

Chapter 5 Business Cycles (Scanner Chapter 6) · Topics 6.0 – 6.1

Revise in about 24 minutes · Video: Paper 4 Day 23 · Session 4 of your timetable

EXAM IN 60 SECONDS

1. Business cycle = trade cycle: recurrent fluctuations in GNP, employment and income, never perfectly regular.
2. Four phases: Expansion (boom), Peak (prosperity), Contraction (recession), Trough (depression); never 'reconstruction'.
3. Turning points = peak and trough; expansion is trough to peak, contraction is peak to trough.
4. Expansion: everything rises, only frictional or structural unemployment; peak: prices up, demand stagnates.
5. Depression = severe recession: negative growth, lowest prices, interest rate falls, credit demand still falls.
6. Leading changes before output, lagging after, coincident with it; Great Depression of the 1930s began in the US.

ONE LINERS

Topic 6.0 · Meaning and examples		
1	★	UK boom of the 1920s; China's slowdown → cycle of decline and panic worldwide (start of recession).
2	★★	Business/trade cycle = rhythmic fluctuations in aggregate economic activity over time; measured by GNP, employment, income.
3	★★★	**Good trade = rising prices, low unemployment; bad trade = falling prices, high unemployment.**
18	★★	IT/Dot.Com bubble 1997–2000, burst 2000; US housing bubble burst in the second half of 2007 → crisis of 2008–09.
40	★★	Outside the SM: counter-cyclical variable; stagflation = low growth + rising prices; recession = fall in real GDP for 6+ months.
Topic 6.1 · Phases, expansion and peak		
4	★★★	**Four phases: Expansion (boom/upswing) · Peak (boom/prosperity) · Contraction (downswing/recession) · Trough (depression). Not 'reconstruction'.**
5	★★	Trough → expansion → peak → contraction → trough; expansions are followed by contractions; peak starts contraction.
6	★★★	**Turning points = peak and trough (boom and depression).**
7	★★★	**Expansion: output, employment, AD, capital & consumer expenditure, sales, profits, stock prices, bank credit all rise.**
8	★★	Expansion: involuntary unemployment almost zero; only frictional or structural unemployment.
9	★★	Peak = highest point, maximum production, later stage of expansion; growth stabilises, then reverses.
10	★★★	**Peak: input and output prices rise, cost of living up, strain on fixed income earners; actual demand stagnates.**
Topic 6.1 · Contraction, depression, recovery		
11	★★★	**Contraction: demand halted; investment and employment fall; supply far exceeds demand; orders cancelled → beginning of recession.**
12	★★★	**Recession deepens: prices fall, unemployment rises, output falls, bank credit shrinks, stock prices fall.**

13	★★★	**Depression = severe form of recession: negative growth, rapid fall in national income and expenditure, rampant unemployment.**
14	★★★	**Depression: interest rate falls, liquidity preference rises; excess capacity in capital and durable goods industries.**
15	★★	Trough = lowest point: end of pessimism, beginning of optimism.
16	★	Recovery: reversal first felt in the labour market; turning point from depression to expansion.
Topic 6.1 · Great Depression and indicators		
17	★★★	**Great Depression 1930s (1929–33): began in the US; Keynes → low aggregate expenditure; monetarists → low money supply.**
19	★★	Turning points are hard to predict → indicators: leading, lagging, coincident.
20	★★★	**Leading = changes BEFORE real output (precursor of upturns and downturns).**
21	★★★	**Leading examples: stock prices, new orders for consumer goods and plant & equipment, building permits, consumer confidence, money growth.**
Topic 6.1 · Lagging and coincident indicators		
22	★★★	**Lagging = changes AFTER real output; reflects history; confirms trends.**
23	★★★	**Lagging examples: unemployment, corporate profits, labour cost per unit of output, interest rates, CPI, commercial lending.**
24	★★★	**Coincident = concurrent: moves WITH the cycle; describes current state and rate of change.**
25	★★★	**Coincident examples: GDP, industrial production, inflation, personal income, retail sales, financial market trends.**

TRAPS TO AVOID

- ✕ 'Reconstruction' is never a phase of the business cycle; 'boom' is used for both expansion and peak.
- ✕ Rising unemployment is NOT a feature of expansion; employment rises while unemployment falls.
- ✕ Full employment does not mean zero unemployment: frictional and structural unemployment can still exist.
- ✕ At the peak demand stagnates; it does not keep rising, and prices are high, not falling.
- ✕ Depression is the severe form of recession, not the reverse; and interest rates fall, they do not rise.
- ✕ No economy follows a perfectly timed cycle; cycles vary in intensity and length.
- ✕ Monetarists blamed LOW money supply, not excess money supply, for the Great Depression.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Meaning and examples of business cycles ☐ Four phases and other names ☐ Turning points ☐ Expansion and peak features ☐ Contraction and depression features ☐ Leading, lagging, coincident indicators ☐ Great Depression and other crises

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY
24 Features, Causes and Relevance of Business Cycles

Chapter 5 Business Cycles (Scanner Chapter 6) · Topics 6.2 – 6.4

Revise in about 20 minutes · Video: Paper 4 Day 24 · Session 4 of your timetable

EXAM IN 60 SECONDS

1. Features: periodic not regular; four phases; free-market origin; pervasive; complex; contagious and international.
2. Effects felt simultaneously on nearly all variables; capital and durable consumer goods hit hardest.
3. Internal: effective demand, investment, government spending, macro policies, money supply, psychological factors.
4. External: war, post-war reconstruction, technology shocks, natural factors, population growth.
5. Keynes demand; Hawtrey money; Pigou psychology; Schumpeter innovations; Kaldor cobweb; some economists investment.
6. Cyclical: fashion retail, electrical goods, house-builders, restaurants, advertising, overseas tours, construction.

ONE LINERS

Topic 6.2 · Features of business cycles		
26	★★★	**Features: periodic but not regular; duration, intensity and phase length vary.**
27	★★★	**Features: four distinct phases; originate in free market economies; pervasive.**
28	★★	Complex; NO uniform characteristics or causes; hard to predict; serious consequences for society's well-being.
29	★★★	**Contagious and international; spread through trade; effects felt simultaneously on nearly all variables.**
30	★★	Capital goods and durable consumer goods are hit hardest; industry is more prone than agriculture.
Topic 6.3 · Causes of business cycles		
31	★★★	**Internal (endogenous): effective demand, investment, govt spending, macro policies, money supply, psychological factors.**
32	★★★	**External (exogenous): war, post-war reconstruction, technology shocks, natural factors, population growth.**
33	★★	Keynes → aggregate effective demand; 'some economists' → investment (the most volatile component of AD).
34	★★	Expansionary policy → boom; anti-inflationary (lower govt spending, higher taxes and interest rates) → slowdown.
35	★★★	**Hawtrey → purely monetary (money supply); Pigou → psychology (optimism/pessimism); Schumpeter → innovations; Kaldor → cobweb.**
36	★★	War diverts resources to arms → contraction; reconstruction → demand up; mobile phones → telecom boom; droughts/floods → agrarian slump.
Topic 6.4 · Relevance for business decisions		
37	★★★	**Cyclical businesses: fashion retail, electrical goods, house-building, restaurants, advertising, overseas tours, construction.**
38	★	Not all firms suffer in a slump — value-for-money and cheaper alternatives can gain.
39	★	Stage of the cycle decides market entry, new product launch, and expansion vs down-sizing.
A1	★	Pigou: modern business activities rest on the anticipations of the business community.

TRAPS TO AVOID

- ✗ 'Business cycles occur at regular intervals' is false: periodic does not mean regular.
- ✗ Repercussions are simultaneous, never asynchronous: 'asynchronous' is not a feature.
- ✗ 'Business cycles have uniform characteristics and causes' is the classic NOT-a-feature option.
- ✗ Technology shocks and population growth are external, not internal: a favourite ICAI swap.
- ✗ Net exports are part of aggregate demand, so export and import changes also cause fluctuations.
- ✗ 'Pigou: fluctuations in investment' is false; Pigou is psychology, Hawtrey is money.
- ✗ Do not link Pigou with investment or Schumpeter with money: match each name to its cause.
- ✗ Post-war reconstruction raises demand, yet it is still an external cause, not internal.
- ✗ Agriculture and washing powder are not in the SM's cyclical list: they are the usual odd one out.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Features of business cycles ☐ Sectors hit hardest ☐ Internal vs external causes ☐ Theorists and their causes
☐ Macroeconomic policies ☐ Cyclical businesses

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 25

National Income: Accounting and Key Concepts

Chapter 6 Determination of National Income (Scanner Chapter 5) · Unit 1 · Topics 1.1 – 1.3

Revise in about 21 minutes · Video: Paper 4 Day 25 · Session 4 of your timetable

EXAM IN 60 SECONDS

1 CSO (MoSPI) compiles national accounts; Kuznets and Stone pioneered them; population policy is not a use.

2 GDP = final goods and services produced in the country in a period, at market prices.

3 GDP deflator = Nominal ÷ Real × 100; base year 100; above 100 means prices above base.

4 Real = Nominal × 100 ÷ index; inflation = (D2 − D1) ÷ D1 × 100.

5 Gross − Net = depreciation; National − Domestic = NFIA; MP − FC = net indirect taxes.

6 NI = NNPFC; PI adds transfers, deducts undistributed profits and corporate tax; DI = PI − personal taxes.

ONE LINERS

Topics 1.1 – 1.3 · Accounts, uses and GDP		
1	★★	NI accounting pioneered by Kuznets and Stone; CSO (MoSPI) compiles national accounts; State DESs compile State Domestic Product.
2	★	Uses of NI estimates: demand forecasting, sectoral composition and shifts, sector policies, macro modelling, income distribution, structural ratios, international comparisons, growth and inflation policy — not population policy.
3	★	GDP = value of all final goods and services produced in the country in a period, at market prices; only final goods counted.
4	★	Nominal = current prices; Real = constant (base-year) prices — removes the price effect; real GDP is the one to compare over time.
Topic 1.3 · GDP deflator		
5	★★★	**GDP deflator = Nominal ÷ Real × 100 — a price index that measures inflation (PPP prices do not).**
6	★★	Real = Nominal × 100 ÷ deflator; Nominal = Real × index ÷ 100.
7	★★	Base-year deflator = 100; > 100 → nominal > real, prices above base; < 100 → prices below base.
8	★★	Inflation = (D2 − D1) ÷ D1 × 100; deflator falls year-on-year → price level fell.
Topic 1.3 · Gross, net, national, domestic		
9	★★★	**Gross − Net = depreciation: NDP = GDP − dep, so NDP ≤ GDP; gross investment = net + replacement; dep > gross investment → capital stock shrinks.**
10	★★	GNP = GDP + NFIA; a foreign firm's profits here are in our GDP and its home country's GNP, not our national income.
11	★★	NFIA negative → GDP > GNP; National = Domestic + NFIA.
12	★★	NNPMP = GNPMP − dep = NDPMP + NFIA = GDPMP + NFIA − dep.
Topic 1.3 · Market price and factor cost		
13	★★★	**MP − FC = net indirect taxes (IT − subsidies); direct taxes irrelevant.**
14	★★	GDPFC = CoE + OS (rent + interest + profit) + mixed income + dep; GDPMP = NDPFC + CFC + NIT.
15	★	Basic price = FC + production taxes − production subsidies; MP = basic price + product taxes − product subsidies.
16	★	NDPFC = CoE + OS + MI = NDPMP − NIT; National Income (NNPFC) = domestic factor incomes + NFIA.

17	★	Per capita income = aggregate ÷ population — indicator of the standard of living.
Topic 1.3 · Personal, disposable and private income		
18	★★	Personal income = receipts of households incl. NPISH from all sources (incl. transfers); excludes retained earnings, corporate tax, social security contributions.
19	★★	DI = PI − personal income taxes − non-tax payments; available for consumption or saving.
20	MQ	NNDI = NNI + other net current transfers from abroad; GNDI = NNDI + CFC.
21	★	Private income = factor + transfer income to the private sector from all sources within and outside the country = PI + corporate tax + undistributed profits.

TRAPS TO AVOID

- ✕ Policies on population growth are NOT on the SM list; ICAI used exactly that as the odd one out in May 2025.
- ✕ Uniforms a team buys for its players are intermediate goods, used in further production; do not count them separately.
- ✕ To get real GDP, divide by the index and multiply by 100; multiplying by the index inflates the figure instead.
- ✕ Dividing by the year-2 deflator gives a smaller, wrong rate; the base of the change is always year 1.
- ✕ Gross investment is not private minus public investment; it is net investment plus replacement investment.
- ✕ National income is not the sum of personal incomes: personal income includes transfers, and not all national income reaches individuals.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ NI accounting and uses ☐ Nominal and real GDP ☐ GDP deflator and inflation ☐ Gross, net and NFIA ☐ Market price and factor cost ☐ Personal and disposable income

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY
26 Measuring National Income in India and Its Limits

Chapter 6 Determination of National Income (Scanner Chapter 5) · Unit 1 · Topics 1.4 – 1.7

Revise in about 22 minutes · Video: Paper 4 Day 26 · Session 4 of your timetable

EXAM IN 60 SECONDS

1. Circular flow has three phases: production, distribution and disposition; each gives one method of measurement.
2. Value added method: GVAMP = (Sales + change in stock) − intermediate consumption; count only final goods.
3. Income method: NI = CoE + operating surplus + mixed income + NFIA; pensions and capital gains excluded.
4. Expenditure method: GDPMP = PFCE + GFCE + GDCF + net exports; transfers out, unsold stock is investment.
5. India: agriculture by product, small scale by income, construction by expenditure; DESs prepare state income.
6. GDP is not welfare; quality improvements are a welfare gap, not a conceptual difficulty of measurement.

ONE LINERS

Topic 1.4 · Circular flow and value added		
22	★	Circular flow: production → distribution → disposition; output = income = expenditure.
23	★	Three methods: value added (unduplicated industry contribution), income (factor incomes paid out), expenditure / income disposal (final expenditure).
24	★★★	**Value added = Product = Industrial Origin = Net Output method; count only final goods / value added to avoid double counting.**
25	★★★	**GVAMP = (Sales + closing − opening stock) − IC; NVA = GVA − dep; FC = MP − IT + subsidies.**
26	★	Include own-account fixed assets, self-consumption, imputed rent, change in stock; exclude unpaid household work and resale of old shares.
Topic 1.4 · Income method		
14	★★	GDPFC = CoE + OS (rent + interest + profit) + mixed income + dep; GDPMP = NDPFC + CFC + NIT.
27	★	Income method = Factor Payment = Distributed Share method; NI = CoE + OS + MI + NFIA.
28	★★	Include wages, PF contribution, commissions, brokerages, imputed rent, royalty, interest on productive loans; exclude pensions, transfers, capital gains, windfalls, second-hand goods, shares and bonds, black money.
29	★★	Profit = corporate tax + dividend + undistributed profit; mixed income = inseparable labour and capital income of the self-employed.
Topic 1.4 · Expenditure method and India		
30	★	Expenditure method: GDPMP = PFCE + GFCE + GDCF + (X − M) — this is GDPMP, not national income.
31	★★	Final consumption arises in households and government; GFCE excludes pensions, scholarships, unemployment allowance (transfers).
32	★★	Transfer payments are excluded from GDP — no current production.
33	★★	GDCF = fixed assets + inventory change + valuables; unsold inventory counts as investment; net domestic expenditure = C + net investment.
34	★	India uses no single method: agriculture — product; small-scale — income; construction — expenditure.
Topics 1.5 – 1.7 · States, welfare, limits		
17	★	Per capita income = aggregate ÷ population — indicator of the standard of living.

35	★★	State income (NSDP) by State Income Units of DESs, CSO advises; supra-regional sectors (railways, banking, insurance) allocated by indicators; per capita state income = NSDP ÷ midyear population.
36	★★	GDP ≠ welfare: misses income distribution, quality improvements, hidden/illegal output, non-market work, leisure, economic bads (traffic congestion), volunteer work, externalities.
37	★	Conceptual difficulties: definition, final vs intermediate, transfers, durable-goods services, income distribution, new goods at constant prices, government services.
38	★	Other challenges: data, non-monetised sector, self-consumption, unrecorded incomes, occupational classification, CFC estimation; underground economy understates NI.

TRAPS TO AVOID

- ✕ Taxation and saving are not phases of the circular flow; the third phase is disposition, i.e. expenditure.
- ✕ Counting intermediate goods with final goods causes double counting; count only final goods or value added.
- ✕ Do not add intermediate consumption to output; it is always deducted to avoid double counting.
- ✕ Pensions and interest on public debt look like incomes, but they are transfers, not payments for current production.
- ✕ Mixed income is not just the net profit of the self-employed; it includes their labour element too.
- ✕ Subsidies exceeding indirect taxes make net indirect taxes negative, so deducting them adds to income.
- ✕ Banking or railways cannot be assigned to one state directly; their estimates are allocated on relevant indicators.
- ✕ Police spending after rising crime raises GDP, yet it only prevents us from becoming worse off.
- ✕ Quality improvements belong to the GDP-and-welfare list, not to the seven conceptual difficulties.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Value added method ☐ Income method inclusions ☐ Mixed income ☐ Expenditure method ☐ Regional accounts ☐ GDP and welfare ☐ Limitations of NI

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY
27 Keynes, Circular Flow and the Consumption Function

Chapter 6 Determination of National Income (Scanner Chapter 5) · Unit 2 · Topics 2.1 – 2.3

Revise in about 22 minutes · Video: Paper 4 Day 27 · Session 5 of your timetable

EXAM IN 60 SECONDS

1. Keynes, General Theory (1936): national income depends on aggregate effective demand.
2. Depression = insufficient spending; government spending and taxes can fight recession and unemployment.
3. Two-sector model: households and firms; real flows of goods, money flows of payments.
4. AD = C + I, investment fixed in the short run; equilibrium when plans match.
5. C = a + bY: a shifts the line; MPC (b) is its slope, between 0 and 1.
6. APC = C/Y falls as income rises; APS = S/Y; MPC + MPS = 1.

ONE LINERS

Topic 2.1 · Keynes and his building blocks		
1	★	Keynes, 'The General Theory of Employment, Interest, and Money' (1936) — answer to the Great Depression's persistent unemployment.
2	★★★	**National income depends on aggregate effective demand; the Depression = insufficient spending.**
3	★★	Government spending and taxes to fight recession and unemployment — an active role.
4	★	Building blocks: consumption–income relation & multiplier · liquidity preference (= demand for money) · expectations.
5	★	Keynesian analysis = short period, comparative statics.
6	★	Macroeconomics = economy as a whole (SM Chapter 1).
Topic 2.2 · Models and the circular flow		
7	★★	Models: two-sector (households + firms) · three-sector (+ government) · four-sector (+ foreign).
8	MQ	Circular flow: real flows (factor services, goods) vs money flows (factor payments, consumption payments).
9	★	Two-sector identity: Factor payments = Household income = Household expenditure = Firms' receipts = Value of output.
10	★	Circular-flow phases: production, distribution, disposition (Unit 1).
11	MQ	AD = total planned expenditure = C + I; I exogenous, constant in the short run.
Topic 2.3 · The consumption function		
12	★★	Consumption function C = f(Y): consumption vs disposable income.
13	★★	C = a + bY; a = autonomous consumption (intercept) — a rise in a shifts C upward.
14	★★	0 < MPC < 1: consumption rises by less than income.
15	★★	MPC = ΔC/ΔY = slope; higher MPC → steeper C.
A1	★	Using past savings to buy consumer goods is dissaving — consumption rises.
Topic 2.3 · APC, saving and supply		
16	★★	APC = C/Y; falls as income rises.
A2	★★	Y = C ÷ APC: C 900, APC 0.45 → Y = 2,000.
17	★	Y = C + S; MPS = 1 − b; MPC + MPS = 1.
18	★★	APS = S/Y; S = APS × Y.
19	★	AS = C + S = national income.

TRAPS TO AVOID

- ✕ The cause was low aggregate expenditure, not banking crises, over-indebtedness or pessimism.
- ✕ The demand for money is called liquidity preference, not aggregate demand or the investment multiplier.
- ✕ The simple two-sector flow has no injections or leakages; nothing is saved, taxed or imported.
- ✕ Effective demand is total demand, not consumer goods alone and not government demand.
- ✕ At low income C exceeds Y: households dissave, borrowing or using past savings to consume.
- ✕ A higher MPC makes the C line steeper; it does not shift it upwards.
- ✕ For APS, first find S = Y − C; do not divide consumption by income.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Keynes and effective demand ☐ Two-sector circular flow ☐ AD = C + I ☐ Consumption function and MPC
☐ APC and APS numericals ☐ MPC + MPS = 1

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 28

Equilibrium Income, Multiplier and Sector Models

Chapter 6 Determination of National Income (Scanner Chapter 5) · Unit 2 · Topics 2.4 – 2.8

Revise in about 22 minutes · Video: Paper 4 Day 28 · Session 5 of your timetable

EXAM IN 60 SECONDS

1. Equilibrium: C + I = C + S, so planned investment equals planned saving (I = S).
2. Deficient demand gives a deflationary gap; excess demand gives an inflationary gap with only prices rising.
3. Find income: write Y = C + I (+ G + X − M), collect Y terms, divide.
4. Multiplier k = ΔY/ΔI = 1/(1 − MPC) = 1/MPS; MPC = 1 makes k infinite.
5. Leakages cut the multiplier; undistributed profits leak. Foreign trade multiplier: 1/(1 − b + m).
6. Keynes: income depends on effective demand; government changes spending and taxes to stabilise it.

ONE LINERS

Topic 2.4 · Two-sector equilibrium and gaps		
20	★★	Equilibrium: C + I = C + S, i.e. I = S; output demanded = output produced.
21	★★★	**Solve Y = C + I (or S = I); C = Y − S.**
22	★	AD < output → inventories pile up → income falls; AD > output → income rises; adjustment via output, not prices.
23	★	Deflationary (recessionary) gap = deficient demand below full-employment output.
24	★★	Inflationary gap = excess demand; real output constant, prices rise.
Topic 2.5 · The investment multiplier		
25	★★	k = ΔY/ΔI; a multiple (more than proportionate) change in income.
26	★★★	**k = 1/(1 − MPC) = 1/MPS; higher MPC → larger k; k = ∞ when MPC = 1.**
27	★★★	**ΔY = k × ΔI; MPC = 1 − 1/k.**
28	★	Change in autonomous spending = upward shift of the AD line; change in MPC = change in slope.
29	★★	Leakages list — UNdistributed (not distributed) profits; saving is a withdrawal.
Topic 2.6 · Three-sector model		
7	★★	Models: two-sector (households + firms) · three-sector (+ government) · four-sector (+ foreign).
30	★	Three-sector: AD = C + I + G; C + I + G = C + S + T.
31	★	Y = (a − bT + bTR + I + G)/(1 − b).
32	★	G is autonomous → multiplier effect on income.
Topics 2.7 – 2.8 · Four sectors and conclusion		
33	★	Four-sector: Y = C + I + G + (X − M).
34	★	Foreign trade multiplier 1/(1 − b + m); higher m → smaller multiplier.
35	★	Exports expansionary; autonomous imports contractionary.
36	★	Leakages S + T + M = injections I + G + X at equilibrium.
2	★★★	**National income depends on aggregate effective demand; the Depression = insufficient spending.**
3	★★	Government spending and taxes to fight recession and unemployment — an active role.

TRAPS TO AVOID

- ✕ C + I = S is a decoy: consumption appears on both sides, so only I = S remains.
- ✕ Keynesian adjustment works through spending and output, not through changes in prices.

- ✕ An inflationary gap does not raise real output; it raises the price level and nominal output only.
- ✕ When $I = \bar{I} + iY$, the denominator becomes $1 - b - i$; using only $1 - b$ gives a wrong answer.
- ✕ Do not stop at k; the question usually asks for ΔY, so multiply k by ΔI.
- ✕ Undistributed profits are a leakage; distributed profits are NOT in the SM list.
- ✕ Use disposable income: subtract taxes and add transfers before applying the MPC.
- ✕ Keynes gives government an active role; 'the market will self-adjust' is the view he rejected.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Equilibrium condition I = S ☐ Deflationary and inflationary gaps ☐ Solving for equilibrium income ☐ Multiplier formula and MPC ☐ Leakages from the multiplier ☐ Three-sector taxes and transfers ☐ Four sectors and foreign trade multiplier

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 29

Functions of Government and Fiscal Federalism

Chapter 7 Public Finance · Unit 1 · Topics 1.2 – 1.5

Revise in about 19 minutes · Video: Paper 4 Day 29 · Session 5 of your timetable

EXAM IN 60 SECONDS

1 Musgrave (1959): allocation for efficiency, redistribution for fairness, stabilisation for price stability.

2 Allocation and distribution are micro functions; stabilisation is macro. Market failures justify allocation.

3 Redistribution answers 'for whom': subsidised services plus progressive tax; balance equity with efficiency.

4 Inflation: cut spending, raise taxes, reduce money supply. Recession: the reverse. Stagflation = inflation plus unemployment.

5 Fiscal federalism: centre stabilises and redistributes, states allocate; Article 246 lists; centre prevails on concurrent conflicts.

6 Article 280 Finance Commission shares the net divisible pool: 41% to states; GST since 1 July 2017.

ONE LINERS

Topics 1.2 – 1.3 · Musgrave and allocation		
2	★★★	**Musgrave, 'The Theory of Public Finance' (1959): allocation (efficiency), redistribution (fairness), stabilisation (price stability).**
3	★	Allocation and distribution = micro; stabilisation = macro.
4	★★	Allocation: market via price mechanism (consumer sovereignty, profit motive); State via budget; in reality both.
5	★	Market failures = rationale for the allocation function.
6	★	Allocation instruments: direct production (electricity, public transport), taxes/subsidies, legislation, competition policy, regulation.
Topics 1.4 – 1.5 · Redistribution and stabilisation		
7	★★	Redistribution answers 'for whom'; expenditure side (subsidised services) + revenue side (progressive tax); BPL food grains.
8	★	Aims: equality of income, wealth and opportunities; minimum standard of living.
9	★	Equity v. efficiency: high taxes on the rich = disincentive to work and enterprise → deadweight loss. Modern state = welfare state.
1	★	Three macro goals: economic growth, high employment, stable prices.
10	★	Stabilisation: Keynesian rationale; a key function of fiscal policy; stagflation = inflation + unemployment.
11	★	Tools: monetary (money supply, interest rate) + fiscal (spending, taxes). Inflation → cut spending, raise taxes, reduce money supply.
Topic 1.5 · Fiscal federalism and the Constitution		
12	★★	Fiscal federalism (Musgrave): division of functions and finances among levels; Centre → stabilisation and redistribution, states → allocation.
13	★★	Art. 246: union, state and concurrent lists. Agricultural income and vehicles → states.
14	★★	Arts. 268–281: distribution of finances; 271 surcharge; 275 statutory grants; divisible pool = all union taxes since 2000.

15	★★★	**Art. 280: Finance Commission — tax sharing, grants-in-aid, vertical and horizontal equity; NDP = gross tax revenue minus cesses, surcharges, non-tax revenue.**
Topic 1.5 · Finance Commission, GST and extras		
16	★	15th FC (2021-26): states 41%; criteria — income distance, area, population (2011), demographic performance, forest and ecology, tax and fiscal efforts.
17	★	GST (1 July 2017): subsumes most indirect taxes; 35% of union gross tax revenue.
18	★	Centre: defence, foreign affairs, money and banking; states: police, health, education; local bodies: water, sanitation.
19	★★	Outside the SM: Adam Smith's canons (equity), Economic Survey (Finance Ministry), automatic stabilisers, cascading effect.

TRAPS TO AVOID

- ✕ Direct production of electricity or public transport is the allocation function, not redistribution or stabilisation.
- ✕ Very high taxes on the rich discourage work, enterprise, saving and risk-taking: efficiency costs or deadweight losses.
- ✕ Raising interest rates fights inflation, but it is a monetary measure by the central bank, not a fiscal one.
- ✕ Musgrave gives allocation to states and local governments, not to the centre.
- ✕ Infrastructure performance and adult literacy are not 15th Finance Commission criteria.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Musgrave's three functions ☐ Allocation and market failures ☐ Redistribution and progressive tax ☐ Stabilisation tools ☐ Fiscal federalism and Articles ☐ Finance Commission and GST ☐ Revision: earlier days

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY
30 Market Failure, Externalities and Public Goods

Chapter 7 Public Finance · Unit 2 · Topics 2.1 – 2.4

Revise in about 18 minutes · Video: Paper 4 Day 30 · Session 5 of your timetable

EXAM IN 60 SECONDS

1 Market failure = inefficient allocation: overproduction or underproduction, not a market that has stopped working.

2 Complete failure = missing markets (pure public goods); partial = wrong quantity or wrong price.

3 Four reasons: market power, externalities, public goods, incomplete information.

4 Market power: price above marginal cost, less output, higher price, profit from dominance.

5 Externalities are costs or benefits not reflected in prices; Social Cost = Private Cost + External Cost.

6 Public goods (Samuelson, 1954): non-rival, non-excludable, indivisible → free-riding → under-provision.

ONE LINERS

Topics 2.2 – 2.3 · Market failure and its reasons		
1	★	Market failure = over- or under-production; complete (missing markets) v. partial.
2	★★	Four reasons: market power, externalities, public goods, incomplete information.
3	MQ	Market power = ability to raise price over marginal cost.
+	★★	Perfect competition is not practical; prices fail to reflect true social costs and benefits.
Topic 2.3 · Externalities and social cost		
4	★★	Externalities = third-party costs/benefits not reflected in prices; disruptive students = negative consumption externality.
5	★	Social Cost = Private Cost + External Cost; negative externality → output above social optimum.
+	★	Four types: negative/positive production and consumption externalities, each received in consumption or production.
+	★	Positive externality → under-production; firms consider only private cost.
Topic 2.4 · Public goods		
6	★	Samuelson (1954): collective consumption goods.
7	★★	Public goods: non-rival, non-excludable, indivisible → free-rider problem → under-provision.
+	★	Free-riding mostly occurs with public goods; firms will not produce them or grossly under-produce them.
+	★	Common property resources (e.g. the environment) are overused; usual remedy: government regulation.
+	★	Impure public goods: a package of public and private goods, partly rival and/or partly excludable.

TRAPS TO AVOID

× Market failure does not mean the market has stopped working; it means the market is not working the way it should.

× Market power profits are not a reward for efficiency; the SM says they come from power and dominance.

× Name the type by where it starts, not where it lands: disruptive students are a consumption externality affecting production.

× Do not subtract taxes or externalities from social cost; nothing is deducted in the SM formula.

× Samuelson, not Keynes, Friedman or Adam Smith, introduced the collective consumption good: asked in September 2025.

- ✕ Excludability belongs to private goods; any option calling public goods 'excludable' or 'rivalrous' is wrong.
- ✕ Free-riding mostly occurs with public goods, not private goods, because private goods are excludable.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Meaning and types of market failure ☐ Four reasons for market failure ☐ Market power ☐ Externalities and their types ☐ Social cost formula ☐ Public goods and free-riding

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 31

Information Failure and Government Intervention

Chapter 7 Public Finance · Unit 2 · Topics 2.5 – 2.8, 2.12

Revise in about 17 minutes · Video: Paper 4 Day 31 · Session 5 of your timetable

EXAM IN 60 SECONDS

1. Information failure causes market failure; asymmetric information means one side knows a material fact the other does not.
2. Adverse selection acts before the deal; moral hazard acts after it through unobserved behaviour.
3. Akerlof's lemons: poor-quality used cars drive good cars out; buyers end with sub-standard goods.
4. Market power: competition laws, liberalisation, merger controls, price regulation — never income-tax cuts.
5. Negative externalities: direct controls, Pigouvian tax or cap and trade; positive ones: subsidies or direct provision.
6. Merit goods are under-consumed and promoted by mandates; labelling and SEBI disclosure correct information failure.

ONE LINERS

Topic 2.5 · Incomplete information		
8	MQ	Information failure → market failure; asymmetric information can run either way.
9	★	Adverse selection (before the deal): high-risk buyers seek insurance more.
10	★★★	**Akerlof's lemons = poor-quality used cars; good cars driven out; buyers end up with sub-standard goods.**
11	★	Moral hazard (after the deal): insured driver drives carelessly.
Topics 2.6 – 2.7 · Market power and externalities		
12	★	Market power: competition laws, liberalisation, price regulation; natural monopoly = lowest cost with one firm.
13	★★	Negative externalities: direct controls (command solutions, smoking ban) or market-based tools (Pigouvian tax, cap and trade).
14	★	Inelastic demand → tax shifted to buyers; elastic → burden more on sellers.
15	★★	Positive externalities: producer or consumer subsidies → lower cost and price.
Topics 2.8 and 2.12 · Merit goods and information		
16	★★	Merit goods: positive externalities, under-consumed; regulation, compulsory insurance, RTE Act 2009.
18	★	Information failure: labelling, mandatory disclosure (SEBI, mutual-fund disclaimer), advertising rules.
19	★	Compulsory insurance is regulation to promote a merit good.
20	★	A public park built by government is direct provision; parks may charge entry fees.

TRAPS TO AVOID

- ✕ It is caused by asymmetric information — not simply 'lack of information' or 'uncertainty of future'.
- ✕ Moral hazard arises after the exchange; adverse selection arises before it. Do not swap them.
- ✕ Reducing income tax is not a policy to encourage competition — a common MTP distractor.
- ✕ A smoking ban or an emission standard is a direct control, not a market-based policy.
- ✕ With inelastic demand the tax barely cuts demand — producers pass it on as higher prices.
- ✕ India has no explicit cap-and-trade; PAT, RPO, REC and ICP only put an implicit price on carbon.

× Merit goods carry substantial positive externalities — never negative ones — and are under-consumed, not over-consumed.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Adverse selection vs moral hazard ☐ Lemons problem ☐ Market power tools ☐ Pigouvian tax and cap and trade ☐ Subsidies for positive externalities ☐ Merit goods ☐ Information-failure remedies

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 32

Government Budget and the Budget-Making Process

Chapter 7 Public Finance · Unit 3 · Topics 3.1 – 3.2

Revise in about 19 minutes · Video: Paper 4 Day 32 · Session 5 of your timetable

EXAM IN 60 SECONDS

1. Budget: where money comes from and goes to; aims are allocation, redistribution, stability, growth, regional balance.
2. Article 112 calls it the Annual Financial Statement; Finance Ministry prepares it with NITI Aayog.
3. Procedures: Drafting → Presentation → Approval → Execution; preparation starts August–September, presented 1 February.
4. Documents show BE for current and ensuing years, RE for current year, Actuals for preceding year.
5. FRBM statements: Macro-Economic Framework; Medium-Term Fiscal Policy cum Fiscal Policy Strategy.
6. Lok Sabha votes demands; Guillotine ends debate; Finance Bill passed in 75 days, Rajya Sabha returns in 14.

ONE LINERS

Topic 3.1 · Budget: meaning, aims, Article 112		
1	MQ	Budget = where money comes from / goes to; schedule of next year's revenues and expenditures; most comprehensive report of govt finances.
2	★	Budget = policy instrument to regulate and restructure economic priorities; aims: allocation, redistribution, stability, real GDP growth, regional balance.
3	MQ	Prepared by Ministry of Finance with NITI Aayog; fiscal year 1 April – 31 March.
4	★	Art. 112 → 'Annual Financial Statement' (Constitution never says 'budget').
Topic 3.2 · Procedures and budget documents		
5	★	Procedures: Preparation → Presentation & enactment → Execution.
6	★	Documents show BE (current + ensuing year), RE (current year), Actuals (preceding year).
8	★★	Documents: AFS · Demands for Grants · Finance Bill · FRBM statements (Macro-Economic Framework; Medium-Term Fiscal Policy cum Fiscal Policy Strategy).
31	★	Outcome budget links allocations to output/outcome targets.
34	★	Public Account: govt as banker (PF, small savings); no Parliamentary approval.
Topic 3.2 · The budget in Parliament		
7	★	Budget speech in Lok Sabha first; Rajya Sabha only discusses, does not vote on demands.
10	MQ	Cut motions reduce demands for grants (economy / policy / grievance).
11	★	Finance Bill = tax proposals; introduced in Lok Sabha after the budget; pass in 75 days; Rajya Sabha returns in 14 days.
12	★	Guillotine: Speaker puts all outstanding demands to vote once time is over.
Topic 3.2 · Receipts and tax sources		
13	★	Receipts: revenue (tax + non-tax; no liability, no asset reduction) vs capital (debt + non-debt).
14	★★	Tax sources: corporation tax, income tax, wealth tax, customs, union excise, GST + compensation cess, UT taxes.
A1	★	Non-debt capital receipts = recoveries of loans and advances + miscellaneous capital receipts (disinvestment).
A2	★	Capital budget finances long-term investments and projects; capital expenditure creates assets or reduces liabilities.

TRAPS TO AVOID

- ✕ A cash budget manages short-term cash flow and liquidity; it is a business-finance term, not a government-budget term.
- ✕ Answer 'Annual Financial Statement', not 'Budget', when asked what Article 112 calls the statement.
- ✕ Actuals of the current year are never shown; the current year is still running.
- ✕ AFS, Demands for Grants and Finance Bill are budget documents but are not the statements mandated by the FRBM Act.
- ✕ Rajya Sabha does not vote on demands for grants; it holds only a general discussion.
- ✕ Rajya Sabha's recommendations on the Finance Bill may be accepted or rejected by the Lok Sabha.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Need and objectives of budget ☐ Article 112 and AFS ☐ Budgetary procedures ☐ BE, RE and Actuals ☐ Budget documents and FRBM ☐ Parliament: bills and Guillotine ☐ Revenue vs capital receipts

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 33

Sources of Revenue and Public Expenditure Management

Chapter 7 Public Finance · Unit 3 · Topics 3.3 – 3.4

Revise in about 19 minutes · Video: Paper 4 Day 33 · Session 5 of your timetable

EXAM IN 60 SECONDS

1. Revenue receipts = tax + non-tax; no liability, no asset reduction. Capital receipts = debt + non-debt.
2. CBDT handles direct taxes; CBIC handles GST, customs, excise and other indirect taxes.
3. GST compensation cess is tax revenue; interest, PSE dividends, RBI surplus and UT receipts are non-tax.
4. Disinvestment and loan recoveries are non-debt capital receipts; market loans and T-bills are debt receipts.
5. Unproductive spending brings larger deficits, higher taxes, lower growth and greater future debt.
6. Fiscal deficit = primary deficit + net interest liabilities; external debt is DEA's job, PDM Cell since 2016.

ONE LINERS

Topic 3.3 · Sources of revenue		
13	★	Receipts: revenue (tax + non-tax; no liability, no asset reduction) vs capital (debt + non-debt).
14	★★	Tax sources: corporation tax, income tax, wealth tax, customs, union excise, GST + compensation cess, UT taxes.
15	★★	Non-tax: interest, dividends/profits of PSEs + RBI surplus, other, UT receipts.
16	★	Non-debt capital = loan recoveries + disinvestment; debt capital = market loans, T-bills, small savings, State PF, external debt.
17	★★	GST: consumption-based; subsumed excise, service tax, VAT (not income tax); IGST on inter-state and imports/exports.
Topic 3.4 · Expenditure and public debt		
18	★	Unproductive spending → larger deficits, higher taxes, lower growth, bigger future debt.
20	★	Expenditure classes: Centre's expenditure vs CSS & transfers; revenue vs capital; charged vs voted (Plan/non-Plan abolished).
21	★★	Public debt = debt contracted in CFI; PDM = size, composition, maturity, interest, redemption.
22	★	PDM aims: lowest long-term cost, sustainable debt; pillars — low cost, risk mitigation, market development.
23	★★	RBI (IDMD) → internal marketable debt; DEA (MoF) → external debt; PDMC 2016.
24	★	T-bills = short-term cash needs; WMA = RBI credit to states up to 3 months.
Topic 3.4 · Deficit measures		
26	★	Balanced R = E; surplus R > E; deficit R < E.
27	★	Budgetary deficit = total expenditure − total receipts (revenue + capital).
28	★	Revenue deficit = revenue expenditure − revenue receipts.
29	★★★	**Fiscal deficit = total expenditure − receipts excl. borrowing = RD + (CE − non-debt capital receipts) = borrowing requirement.**
30	★★	Primary deficit = fiscal deficit − net interest liabilities.

TRAPS TO AVOID

- ✕ GST compensation cess is a tax, so it is never a non-tax revenue — a recent PYQ favourite.
- ✕ 'Receipts of union territories' is non-tax, but 'taxes on union territories' is tax — read the words carefully.
- ✕ GST is not production-based or income-based, and income tax was never replaced by it.

- ✗ Lower taxation or faster growth never appear in this list — unproductive spending raises taxes and slows growth.
- ✗ 'Revenue maximisation' and 'deficit' are the planted wrong options in these MTP questions.
- ✗ Subtracting 3,500 from 20,500 gives ₹17,000 crores — the planted wrong option.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Revenue vs capital receipts ☐ Tax vs non-tax revenue ☐ GST basics ☐ Expenditure management and categories ☐ Public debt facts ☐ Primary and fiscal deficit

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 34

Public Debt Management and Budget Concepts

Chapter 7 Public Finance · Unit 3 · Topic 3.5

Revise in about 18 minutes · Video: Paper 4 Day 34 · Session 6 of your timetable

EXAM IN 60 SECONDS

1. Public debt: government debt, internal and external, contracted in the Consolidated Fund of India.
2. Debt management decides size, composition, maturity, interest rates and redemption; pillars: low cost, risk mitigation, market development.
3. RBI (IDMD) manages domestic debt; DEA in MoF manages external debt; SEBI has no role; PDMC 2016.
4. FRBM Act 2003 reduces deficit and debt: inter-generational equity, long-run stability, coordination, transparency.
5. Fiscal deficit = total expenditure − receipts excluding borrowing; primary deficit = fiscal deficit − net interest.
6. CFI needs Parliament's appropriation; Contingency Fund is with the President; Public Account holds depositors' money.

ONE LINERS

Topic 3.5 · Public debt and its management		
21	★★	Public debt = debt contracted in CFI; PDM = size, composition, maturity, interest, redemption.
22	★	PDM aims: lowest long-term cost, sustainable debt; pillars — low cost, risk mitigation, market development.
23	★★	RBI (IDMD) → internal marketable debt; DEA (MoF) → external debt; PDMC 2016.
24	★	T-bills = short-term cash needs; WMA = RBI credit to states up to 3 months.
25	★	FRBM 2003: reduce deficit and debt; inter-generational equity, LONG-run stability, fiscal–monetary coordination, transparency.
Topic 3.5 · Budget documents, terms and deficits		
8	★★	Documents: AFS · Demands for Grants · Finance Bill · FRBM statements (Macro-Economic Framework; Medium-Term Fiscal Policy cum Fiscal Policy Strategy).
19	★	Dept of Expenditure = nodal department for public financial management.
29	★★★	**Fiscal deficit = total expenditure − receipts excl. borrowing = RD + (CE − non-debt capital receipts) = borrowing requirement.**
12	★	Guillotine: Speaker puts all outstanding demands to vote once time is over.
31	★	Outcome budget links allocations to output/outcome targets.
Topic 3.5 · The funds of the government		
32	★	CFI: all revenues, loans, repayments; spend only if appropriated by Parliament.
9	★	Charged on CFI, not voted: President, SC Judges, constitutional authorities (and interest on debt).
33	MQ	Contingency Fund: with President, for urgent unforeseen spending, later recouped from CFI.
34	★	Public Account: govt as banker (PF, small savings); no Parliamentary approval.

TRAPS TO AVOID

- ✕ Public debt is not a one-time borrow-and-repay exercise; debt servicing is continuous.
- ✕ The pillars are low cost, risk mitigation and market development; high returns or maximum borrowing are never pillars.
- ✕ SEBI has no role in public debt management; the answer to 'not responsible' is SEBI.

- ✕ The objective is LONG-run macroeconomic stability, not short-run; examiners swap the word.
- ✕ Never include borrowing in receipts; borrowing is what fills the fiscal deficit.
- ✕ Guillotine is voting on all pending demands at once, not cancelling debt or cutting grants to states.
- ✕ Contingency Fund needs no prior approval but is recouped from the Consolidated Fund; Public Account money is not the government's.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Public debt and its management ☐ Objectives and three pillars ☐ Who manages which debt ☐ FRBM Act, 2003 ☐ Fiscal and primary deficit sums ☐ CFI, Contingency Fund, Public Account ☐ Revision: earlier days

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 35

Fiscal Policy: Objectives, Types and Instruments

Chapter 7 Public Finance · Unit 4 · Topics 4.1 – 4.4

Revise in about 19 minutes · Video: Paper 4 Day 35 · Session 6 of your timetable

EXAM IN 60 SECONDS

1. Fiscal policy: deliberate govt use of taxation, public expenditure and borrowing to influence AD, output, employment.
2. Fiscal tools: taxes, spending, public debt, budget; interest rate and money supply are monetary tools.
3. Objectives: full employment, price stability, faster development, equitable distribution of income and wealth.
4. Recession: cut taxes, raise spending (expansionary). Inflation: raise taxes, cut spending (contractionary).
5. Deficit budget raises AD, surplus lowers it, balanced is neutral; deficit financed by borrowing or monetisation.
6. Lags: recognition, decision, implementation, impact; borrowing raises interest rates and crowds out private spending.

ONE LINERS

Topics 4.1 – 4.2 · Meaning, tools and objectives		
1	★★★	**Fiscal policy = deliberate govt use of taxation, public expenditure and borrowing to influence AD, output, employment.**
2	★	Fiscal policy is demand-side; not needed at full employment.
3	★	Tools: taxes, govt expenditure, public debt, budget (interest rate is monetary).
4	★	Objectives: full employment, price stability, faster development, equitable distribution.
5	★	GDP = C + I + G + NX: G directly; C, I, NX indirectly via taxes, transfers, spending.
Topic 4.3 · Types of fiscal policy		
6	★★	Expansionary (recession, recessionary gap): cut taxes and/or raise spending.
7	★★	Contractionary (inflation, inflationary gap): cut spending and/or raise taxes → smaller deficit.
8	★★	Deficit budget stimulates, surplus slows; balanced has no net effect on AD.
9	★★	Pump priming = one-shot public spending to revive a depressed economy.
Topic 4.4 · Instruments and limitations		
10	★★	Govt spending → incomes + multiplier → output and employment; financed by borrowing or monetisation.
11	★	Taxes: main revenue source; cut in recession, raised in inflation.
12	★	Redistribution: progressive direct taxes, differential indirect taxes, welfare spending.
13	★★	Lags: recognition, decision, implementation, impact (results not yet visible).
14	★★	Limits: rigid spending, long gestation, disincentives, price spiral, debt burden on future generations.
15	★★	Crowding out: govt borrowing → higher interest → less private investment; unlikely in deep recession.

TRAPS TO AVOID

- ✕ Interest rates, money supply and inflation targeting are monetary tools, not fiscal tools.
- ✕ NX means exports minus imports, not total exports.
- ✕ Contractionary policy raises taxes and cuts spending; do not mix it with expansionary measures in the options.
- ✕ Financing extra spending by raising taxes is self-defeating; use a deficit budget — borrowing or monetisation.
- ✕ A surplus sounds attractive, but the SM says it has a negative net effect on aggregate demand.

- ✗ Because of lags, an expansionary policy may start when recovery is already under way.
- ✗ Crowding out reduces private spending; it does not increase the effectiveness of fiscal policy.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Meaning and tools of fiscal policy ☐ Objectives of fiscal policy ☐ Expansionary vs contractionary ☐ Expenditure, taxes and debt ☐ Budget balance and AD ☐ Lags and limitations ☐ Crowding out

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 36

Money and the Theories of Demand for Money

Chapter 8 Money Market · Unit 1 · Topics 1.1 – 1.5

Revise in about 21 minutes · Video: Paper 4 Day 36 · Session 6 of your timetable

EXAM IN 60 SECONDS

1 Money: medium of exchange, unit of account, store of value; must be hard to counterfeit.
2 Money demand: derived demand for real balances; rises with income and prices, falls with interest.
3 Fisher MV = PT: money supply sets prices. Cambridge Md = kPY: k is income held as cash.
4 Keynes: transactions (Lr = kY), precautionary and speculative motives; no 'investment motive'.
5 Liquidity trap: near-zero rate, speculative demand perfectly elastic, monetary policy ineffective.
6 Baumol C = √(2bY/r); Friedman permanent income; Tobin risk aversion; Keynes introduced interest.

ONE LINERS

Topics 1.1 – 1.2 · Money and its demand		
1	★	Functions of money: store of value, unit of account, medium of exchange (and standard of deferred payments).
2	★★	Characteristics of money: acceptable, durable, recognisable, hard to counterfeit, scarce, portable, uniform, divisible. Perishable or easily reproducible money fails.
3	★	Fiat money is worthless as material; it has value only because people collectively agree it does.
4	★	Money demand is a derived demand for real balances (nominal money ÷ price level).
5	★★	Determinants: income (+), price level (+), interest rate (−, the opportunity cost), real GDP, financial innovation. The fiscal deficit is not one.
Topic 1.3 · Fisher and Cambridge		
6	★★★	**Fisher (1911): MV = PT, extended to MV + M'V' = PT. With V and T constant, P varies in proportion to M.**
7	★★	Numericals: V = PT/M and P = MV/T. Watch crore and lakh conversions.
8	★★	Fisher: PT is the demand for money and the supply of money determines prices. Cambridge: the value of money depends on demand.
9	★	Cambridge: Md = kPY, where k = the share of nominal income held as cash and Y = real national income.
Topic 1.3 · Keynes and the liquidity trap		
10	MQ	Keynes (1936), liquidity preference: transactions, precautionary and speculative motives. There is no 'investment motive'.
11	★★	Transactions motive: Lr = kY, depends on income and not on the interest rate.
12	MQ	Precautionary motive: covers unforeseen contingencies; depends on income, conditions and personality.
13	★	Speculative motive: exploit investment opportunities; inversely related to the interest rate. Expecting rates to rise means holding cash.
14	★★★	**Liquidity trap: interest rate near 0, speculative demand perfectly elastic, curve parallel to the X-axis, monetary policy ineffective.**
Topics 1.4 – 1.5 · Post-Keynesians and conclusion		
15	MQ	Post-Keynesian theories stress money as an asset (store of value).

16	★★	Baumol–Tobin inventory approach: two media (money and an interest-bearing asset); opportunity cost = interest forgone.
17	★★	Square Root Rule C = √(2bY/r): optimal money holding rises with Y, P and c and falls with i.
18	★★	Friedman (1956): money as a capital asset; permanent income (not current income); demand rises with P.
19	★★	Tobin: risk aversion and a diversified portfolio. More bonds and shares mean higher return and higher risk. The liquidity preference curve relates the interest rate to money demand.
20	★	Keynes formally introduced the interest rate into money demand. All the theories: + real income, − interest rate.

TRAPS TO AVOID

- × 'Easily reproducible by people' is never a function of money; good money is difficult to counterfeit.
- × 'Perishable' and 'easily reproducible' are the usual wrong options; ICAI has used both.
- × The government's fiscal deficit is NOT a direct determinant of the demand for money.
- × Fisher focused on the SUPPLY of money as determining prices, not on demand.
- × There is no 'investment motive' in Keynes; the three are transactions, precautionary and speculative.
- × The trap comes at a near-ZERO interest rate, not a high one, and it makes monetary policy ineffective.
- × Keynes said transactions demand ignores interest; Baumol–Tobin say it depends on interest. Do not mix them.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Functions and characteristics ☐ Determinants of money demand ☐ Fisher and Cambridge equations ☐ Keynes's three motives ☐ Liquidity trap ☐ Baumol, Friedman and Tobin

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 37

Money Supply: Meaning, Sources and Measures

Chapter 8 Money Market · Unit 2 · Topics 2.1 – 2.4

Revise in about 15 minutes · Video: Paper 4 Day 37 · Session 6 of your timetable

EXAM IN 60 SECONDS

1. Money supply is a stock held by the public at a point of time.
2. 'Public' excludes government and banks: RBI's own cash and inter-bank deposits are not money supply.
3. Central bank issues fiat money (high-powered); commercial banks create credit money. Crypto is not money.
4. Currency with public = notes + rupee coins + small coins − cash on hand with banks.
5. M1 = currency with public + demand deposits + other deposits with RBI; time deposits excluded.
6. M2: M1 + PO savings. M3: M1 + time deposits (broad money). M4: M3 + PO deposits.

ONE LINERS

Topics 2.1 – 2.2 · Meaning, purpose and the public		
1	★	Money supply is a stock held by the public at a point of time.
2	MQ	Measurement serves monetary policy: it checks the stock of money against price stability.
3	★★	'Public' excludes the government and the banking system, so currency with the RBI and inter-bank deposits are not counted.
8	★	Broad money: maturity up to 2 years, notice up to 3 months, debt securities up to 2 years.
Topic 2.3 · Sources of money supply		
4	★★	Central bank currency is fiat money: legal tender backed by reserves and guaranteed by the government.
5	★★★	**Sources: the central bank (high-powered money) and the banks (credit money, created on deposits).**
6	★	Crypto currencies are not legal currency in India and are not money.
10	★★	Paper currency is representative money: a debt instrument issued under a minimum reserve system.
Topic 2.4 · The RBI's measures		
7	★★★	**M1 = C + DD + OD(RBI); M2 = M1 + post office savings deposits; M3 = M1 + time deposits; M4 = M3 + total post office deposits (excluding NSCs).**
9	★★★	**Currency with the public = notes + rupee coins + small coins − cash with banks.**
11	★★★	**The RBI has published M1, M2, M3 and M4 since April 1977, on the Second Working Group's recommendation.**
12	★★	Aggregate numericals: add only the listed components; post office deposits stay out of M3.

TRAPS TO AVOID

- ✕ Currency held by the central bank is not money supply: the RBI produces money, it is not the public.
- ✕ Gold and silver coins are not fiat money; currency notes issued by the central bank are.
- ✕ Time deposits are not in M1, and post office deposits are not in M3.
- ✕ Do not add cash in hand with banks; subtract it.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Meaning of money supply and 'public' ☐ Why money supply is measured ☐ Sources and fiat money ☐ Broad money (M3) contents ☐ M1 to M4 measures ☐ Currency with the public

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY
38 Money Multiplier and Determinants of Money Supply

Chapter 8 Money Market · Unit 2 · Topics 2.5 – 2.9

Revise in about 15 minutes · Video: Paper 4 Day 38 · Session 6 of your timetable

EXAM IN 60 SECONDS

1. Money multiplier m = money supply ÷ monetary base, so M = m × MB.
2. High-powered money = reserve money = base money = currency in circulation + bank reserves; not M1.
3. Simple and credit multipliers = 1 ÷ reserve ratio: 10% gives 10, 20% gives 5.
4. m = (1 + c)/(r + e + c): c set by public, e by banks, r by RBI.
5. Higher r, e or c means a smaller multiplier; more high-powered money means more money supply.
6. OMO purchase and WMA to government add reserves and money; an OMO sale reduces money supply.

ONE LINERS

Topics 2.5, 2.6, 2.9 · Multipliers and base money		
10	★★★	**M = m × MB, and m = M/MB (ΔM/ΔMB).**
11	★★★	**Simple multiplier = 1/R; credit multiplier = 1/RRR; credit created = deposit × 1/RRR.**
12	★	High-powered money = reserve money = base money = currency + bank reserves (not M1).
13	★★	Excess reserves ER = TR − RR. Fewer excess reserves mean a larger multiplier.
Topics 2.7 – 2.8 · Three ratios and OMO		
14	★★	m = (1 + c)/(r + e + c), set by the public (c), the banks (e) and the central bank (r).
15	★★★	**Required reserve ratio up means money supply down; a CRR cut raises lending capacity.**
16	★★★	**Currency–deposit ratio = banking habits. A smaller ratio gives a larger multiplier; more cash held gives a smaller money supply.**
17	★	A higher TD/DD ratio frees more reserves and raises monetary expansion.
18	★	An OMO purchase injects high-powered money; an OMO sale reduces money supply.

TRAPS TO AVOID

- ✕ High-powered money is not narrow money M1; M1 is currency with public plus deposits.
- ✕ Do not invert it: m is money supply over base, never base over money supply.
- ✕ Cash held by the public does not undergo multiple deposit expansion, so more cash means a smaller multiplier.
- ✕ A rise in the currency–deposit ratio lowers the multiplier; people converting deposits into cash shrink money supply.
- ✕ Do not stop at 1/r = 10; once currency and excess reserves are included the multiplier is only 2.5.
- ✕ The multiplier can be zero: at very low interest rates banks may hold new reserves as excess reserves.
- ✕ Do not mix it up with (1 + c)/(r + e + c); the credit multiplier ignores currency and excess reserves.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ M = m × MB numericals ☐ High-powered money names ☐ Required and excess reserves ☐ Currency–deposit ratio ☐ m = (1 + c)/(r + e + c) ☐ OMO, WMA and credit multiplier ☐ Revision: earlier days

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 39

Monetary Policy: Framework, Tools and the MPC

Chapter 8 Money Market · Unit 3 · Topics 3.1 – 3.5

Revise in about 20 minutes · Video: Paper 4 Day 39 · Session 6 of your timetable

EXAM IN 60 SECONDS

1 RBI runs monetary policy for price stability; lower rates ease, higher rates tighten.
2 Primary objective: judicious balance between price stability and economic growth.
3 Channels: saving and investment, cash-flow, asset prices and wealth, exchange rate.
4 Quantitative: CRR, SLR, OMO. Qualitative: margins, moral suasion, selective credit control, MSS.
5 Reverse repo = repo − 1; MSF = repo + 1; extra CRR = NDTL × rise in CRR.
6 MPFA and MPC from 27 June 2016; target 4% CPI ± 2%; MPC sets repo.

ONE LINERS

Topics 3.1 – 3.3 · Policy, objectives, channels, tools		
1	★★	The RBI implements monetary policy to manage fluctuations and achieve price stability; cutting rates is easing, raising them is tightening.
2	★★	Primary objective: a judicious balance between price stability and growth.
3	★★	Transmission channels: saving and investment, cash-flow, asset prices and wealth, exchange rate. 'Open market' and 'international trade' are not channels.
4	★★★	**Quantitative tools: CRR, SLR, OMO. Qualitative tools: margin requirements, moral suasion, selective credit control. Taxes and spending are fiscal.**
Topic 3.3 · Reserve ratios, OMO and policy rates		
5	★★★	**CRR = cash with the RBI, no interest. SLR = liquid assets (gold or government securities). Extra CRR = NDTL × ΔCRR.**
6	★★	OMO: buying injects and selling absorbs liquidity; used for temporary mismatches from foreign capital flows.
7	★★	Bank rate: long-term lending and rediscounting of bills; a penalty for CRR/SLR shortfall; a higher rate discourages borrowing.
8	★★★	**LAF (Narasimham Committee) = repo + reverse repo. Reverse repo = repo − 1 and absorbs liquidity (banks lend to the RBI).**
9	★★	MSF = repo + 1: a penal overnight rate, up to 1% of SLR securities.
10	★	MSS: the Government borrows from the RBI and issues T-bills and dated securities; the money is not for normal expenditure.
Topics 3.4 – 3.5 · MPC, inflation target, challenges		
11	★★	RBI Act amended 27 June 2016: MPFA (Government of India and RBI) and MPC.
12	★★	Inflation target: 4% CPI ± 2% (5 August 2016 to 31 March 2021), set by the Government with the RBI every five years.
13	★	Monetary Policy Report every six months, with inflation forecasts for 6–18 months.
14	★	The MPC (six members) sets the repo rate.
15	★★	Emerging-market limits: weak, non-integrated money markets; fiscal and monetary coordination is needed.

TRAPS TO AVOID

✕ Monetary policy is implemented by the RBI, not by SEBI, SBI or the Government's budget.

- ✗ Cutting taxes or balancing the budget is fiscal policy, not an objective of monetary policy.
- ✗ Do not assume the impact is quick and certain; timing and size are uncertain.
- ✗ 'Open market channel' and 'international trade channel' are NOT channels; both are favourite distractors.
- ✗ Bank rate, LAF and MSF are listed separately as policy rates; tax rates are fiscal tools.
- ✗ Applying the full 4.5% gives ₹81 crore, which is the total, not the extra.
- ✗ Do not swap them: reverse repo is below repo, MSF is above repo.
- ✗ Failure needs three consecutive quarters outside the band, not a single bad month or quarter.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Objectives and channels ☐ Quantitative vs qualitative tools ☐ CRR and SLR ☐ Repo, reverse repo and MSF
☐ OMO and bank rate ☐ MPFA, MPC and inflation target

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 40

Why Nations Trade: Theories of International Trade

Chapter 9 International Trade · Unit 1 · Topics 1.1 – 1.2

Revise in about 15 minutes · Video: Paper 4 Day 40 · Session 7 of your timetable

EXAM IN 60 SECONDS

1 International trade: exchange of goods, services and resources between countries; boosts efficiency, markets, technology and quality.

2 Against trade: unequal gains, exploitation by global corporations, dependence, crisis transmission, environmental damage.

3 Mercantilism (16th–18th c.): aggressive exports over imports to accumulate wealth and bullion; favourable balance of trade.

4 Smith: absolute advantage, more output with same resources; labour only input; no transport cost assumed.

5 Ricardo: comparative advantage; labour theory of value; normative; ignores factor prices; trade useful when cost ratios differ.

6 Heckscher-Ohlin: two factors, export abundant-factor goods; money cost, positive. Krugman: scale and network effects.

ONE LINERS

Topics 1.1 – 1.2 · Gains, mercantilism, absolute advantage		
1	★	Benefits: efficiency and growth, new markets and materials, innovative services, quality upgrade for emerging economies.
2	★	Against trade: exploitation of underprivileged countries by global corporations; risky dependence; trade-cycle transmission.
3	★★★	**Mercantilism (16th–18th c.): aggressive exports over imports → wealth, bullion, favourable BoT; high import tariffs.**
4	★	Adam Smith — absolute advantage: more output from the same resources; labour the only input.
5	★	Absolute advantage assumptions: 2 countries × 2 goods, no transport cost, labour-cost basis, labour immobile between countries.
Topic 1.2 · Ricardo, Heckscher-Ohlin, modern theory		
6	★★	Ricardo — comparative advantage: export where absolute advantage greatest, import where comparatively less; gains even if better at everything.
7	★★	Comparative cost theory: labour theory of value, one factor; Haberler → opportunity cost (constant).
8	★★	Comparative costs = normative, ignores factor prices; Modern = positive, money cost, factor price differences, special case of inter-regional trade.
9	★★★	**H-O = Factor-Endowment = Modern theory: 2 factors; export goods using the abundant factor.**
10	★	Balance of trade = flow concept (not in SM).

TRAPS TO AVOID

× 'Underprivileged countries become less vulnerable to corporations' is false — the SM says they become more vulnerable.

× Its limitation is a focus on the balance of trade, not overall welfare.

× Smith's comparison uses labour only; opportunity cost belongs to comparative advantage, not absolute advantage.

- ✗ 'Existence of transportation cost' is NOT an assumption — the theory assumes no transport cost at all.
- ✗ A being better at both goods does not stop trade; what matters is the relative advantage.
- ✗ H-O is not Factor Price Equalisation theory, and it does not rest on technology superiority.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Benefits vs arguments against trade ☐ Mercantilism ☐ Absolute advantage and assumptions ☐ Comparative advantage (Ricardo) ☐ Heckscher-Ohlin theory ☐ Comparative costs vs modern theory ☐ New trade theory

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY
41

The Instruments of Trade Policy

Chapter 9 International Trade · Unit 2 · Topics 2.1 – 2.4

Revise in about 19 minutes · Video: Paper 4 Day 41 · Session 7 of your timetable

EXAM IN 60 SECONDS

1. Trade policy instruments: price-related (tariffs) and non-price (NTMs); protectionism shields, liberalisation removes barriers.
2. Specific = fixed ₹ per unit; ad valorem = % of value; mixed = OR; compound = AND.
3. Bound = legal WTO ceiling, applied ≤ bound; escalated = manufactures taxed higher than raw materials.
4. Anti-dumping duty offsets below-fair-value pricing; CVD offsets export subsidies; both are tariffs, not NTBs.
5. SPS protects life and health; TBT covers standards and labels; quotas earn no revenue, only quota rents.
6. Embargo = total ban, most extreme; safeguards temporary, non-discriminatory; VERs run by the exporting country.

ONE LINERS

Topics 2.1 – 2.2 · Trade policy and basic tariffs		
1	MQ	Trade policy = all instruments to promote or restrict imports/exports; price-related (tariffs) vs non-price (NTMs).
2	★	Protectionism = tariffs, quotas, NTMs to shield domestic producers; liberalisation = bringing down barriers.
3	★★	Specific = fixed sum per unit; ad valorem = fixed % of value (duty change = rate × price change).
4	★★	Mixed = ad valorem OR specific, whichever higher; compound = both added; technical = on contents/components.
Topic 2.2 · Tariff forms, dumping and effects		
5	★	TRQ = quota + tariff: low tariff inside the quota, high beyond.
6	★★	Preferential (NAFTA: USA, Canada, Mexico); bound = legal ceiling, applied ≤ bound; variable → domestic support price.
7	★★	Escalated = higher tariff on manufactures than raw materials; prohibitive = no imports enter.
8	★★★	**Dumping = sale abroad below home price or full average cost; ADD on imports below fair market value; CVD offsets export subsidies.**
9	★	Tariff effects: consumers lose surplus; producers gain as foreign competition falls; revenue rises; comparative advantage ignored.
Topics 2.3 – 2.4 · NTMs and export measures		
10	★	NTMs = non-tariff, invisible; NTBs = discriminatory subset; tariffs and CVD are not NTBs.
11	★	Technical = product properties and production processes (SPS, TBT); non-technical = trade requirements (hard, threat, other).
12	★★	SPS: human, animal, plant life and biodiversity; TBT: food and non-food standards, labels, eco-labels, organic certification — not quotas.
13	★★	Import quota = physical limit, usually per year; no government revenue; quota rents.
14	★	Non-automatic licensing limits quantity from any source; financial measures = advance payment, forex controls.
15	★★	Safeguards: temporary, non-discriminatory, against import surges; embargo = total ban, most extreme barrier.
16	★	VERs: informal quota administered by the exporting country after negotiation.

TRAPS TO AVOID

- ✕ Fiscal, monetary or stock-market policies are not trade policy instruments.
- ✕ Do not swap them: 'constant percentage of value' is ad valorem, 'fixed sum per unit' is specific.
- ✕ The reversed order (raw materials taxed higher) is the classic wrong option.
- ✕ Tariffs increase, not decrease, government revenue; producers' gain is not a negative outcome.
- ✕ Anti-dumping and countervailing duties are tariffs, not NTBs; quotas and TBT are NTMs.
- ✕ A tariff earns the government revenue; a quota earns it nothing.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Forms of tariff ☐ Bound, applied and escalated tariffs ☐ Anti-dumping and countervailing duties ☐ Effects of tariffs ☐ NTMs, SPS and TBT ☐ Quotas and non-technical measures ☐ Export measures and VERs

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 42

Trade Negotiations — RTAs, GATT, WTO and Doha

Chapter 9 International Trade · Unit 3 · Topics 3.1 – 3.7

Revise in about 23 minutes · Video: Paper 4 Day 42 · Session 7 of your timetable

EXAM IN 60 SECONDS

1. RTAs: eight types; FTA keeps own external tariffs, customs union has a common external tariff.
2. Common market adds free movement of labour and capital; EMU adds a common currency.
3. GATT 1948–1994: goods only, an agreement not a treaty; eight rounds cut tariffs.
4. Uruguay Round 1986–1993, eighth and largest, 123 countries; it gave birth to the WTO.
5. WTO: Ministerial Conference at top; MFN means no discrimination, Article 1 of GATT.
6. Doha 2001 is the ninth round, agriculture most controversial; Tunisia is not in the G20.

ONE LINERS

Topics 3.1 – 3.2 · Negotiations and RTAs		
1	★	UNCTAD: development-friendly integration of developing countries (not in SM).
2	★	Trade negotiations: market access vs protection; USMCA (2020) = NAFTA successor (USA, Mexico, Canada).
3	★★★	**RTAs: 339 in force on 1 Feb 2021; eight types, unilateral → EMU; bilateral = two countries/blocs.**
4	★	Multilateral = entire WTO membership (WTO agreements); NAFTA/EU are regional.
5	★★	Trading bloc: FTA + may apply a common external tariff (Arab League, EFTA).
6	★★	FTA keeps own external tariffs; customs union has a common external tariff (EU, GCC, MERCOSUR); common market adds factor mobility; EMU adds common currency.
7	★	Export-industry targeting → sector jobs, better current account (not in SM).
Topics 3.3 – 3.5 · From GATT to the WTO		
8	★	GATT: goods; 1948–1994; eight trade rounds; an agreement, not a treaty.
9	★	GATT lost relevance: investments, IPR and services outside it, agriculture failure, weak institutions and dispute settlement, not a treaty.
10	★	Uruguay Round 1986–94 (8th, 123 countries) → WTO 1995, encompassing GATT as modified.
11	★	WTO objective: trade flows smoothly, freely, fairly, predictably; six objectives incl. transparency — never secrecy.
12	MQ	Structure: Geneva Secretariat under DG; Ministerial Conference (top, every 2 yrs) → General Council (TPRB, DSB) → Goods, Services, TRIPS Councils.
Topic 3.5 · WTO principles		
13	★★	MFN: no discrimination among partners; Article 1 of GATT.
14	★	National treatment: imported = local goods once inside the market; post-sales restrictions violate it.
15	★	Guiding principles: non-discrimination, freer trade, predictability (binding and transparency), fair competition, development and reform.
16	★	TPRM: periodical review of members' trade policies.
Topics 3.5 – 3.7 · Agreements, Doha and G20		
17	★★	WTO agreements: AoA (market access, domestic support, export subsidies), SPS, TBT, TRIMs, TRIPS, GATS … — NAFTA is not one.

18	MQ	NTMs under WTO: quotas, licensing, procedures disciplined; safeguards temporary emergency measures.
19	★★	Doha Development Agenda: 9th round, Doha, Nov 2001; most controversial = agriculture; developing-country concerns.
20	★	G20: 19 countries + EU (Tunisia not a member).

TRAPS TO AVOID

- ✗ The common external tariff marks a customs union; free-trade area members keep their own distinct external tariffs.
- ✗ Free mobility of labour and capital first appears at the common market stage, not the customs union.
- ✗ MERCOSUR has 'Common Market' in its name, yet the SM lists it as a customs union.
- ✗ Uruguay is the eighth round; Doha, launched in 2001, is the ninth — do not swap them.
- ✗ 'Maintaining secrecy' is never a WTO objective; increasing transparency of decision-making is.
- ✗ There is no separate top court here: the General Council itself meets as the Dispute Settlement Body.
- ✗ Charging customs duty on an import does not breach national treatment; it applies only inside the market.
- ✗ 'Special treatment' is not a guiding principle; 'encouraging development and economic reform' is the correct name.
- ✗ TRIPS is Trade-Related Aspects of Intellectual Property Rights; do not confuse it with TRIMs on investment.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Types of RTA ☐ FTA vs customs union ☐ GATT and Uruguay Round ☐ WTO objectives and structure ☐ MFN and national treatment ☐ WTO agreements ☐ Doha Round and G20

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY
43

Exchange Rates, Regimes and the Real Exchange Rate

Chapter 9 International Trade · Unit 4 · Topics 4.1 – 4.4

Revise in about 19 minutes · Video: Paper 4 Day 43 · Session 7 of your timetable

EXAM IN 60 SECONDS

1. Exchange rate = price of one currency in terms of another; convert by multiplying by the quote.
2. Free float: market only; managed float: central bank buys or sells — India is a managed float.
3. Fixed (pegged): set by government policy; central bank intervenes and holds adequate reserves.
4. Soft peg is used by most IMF members; fixed rates REDUCE speculation and add credibility.
5. Floating: independent monetary policy, no huge reserves — but volatility, uncertainty and risk premium.
6. RER = NER × Domestic ÷ Foreign price; rising REER makes exports less competitive.

ONE LINERS

Topics 4.1 – 4.2 · Exchange rate basics		
1	MQ	Exchange rate = rate at which one currency exchanges for another; convert by multiplying by the quoted rate.
14	★	Equilibrium rate where D$ meets S$; demand from imports, transfers, income payments, assets, speculation; supply from exports, FDI/FPI inflows.
16	★	Appreciation = value up, depreciation = value down; $1 = ₹70 → ₹75 means the rupee depreciated, the dollar appreciated.
A1	★	US residents buying abroad supply dollars; fewer US residents travelling abroad → fewer dollars supplied.
Topic 4.3 · Exchange rate regimes		
2	MQ	Regime = system by which a country manages its currency against foreign currencies; extremes: floating (flexible) and fixed.
3	MQ	Free float: market-determined by demand and supply; governments and central banks stay out.
4	★★	Managed float: rate floats but central bank buys/sells to influence it — India = managed float.
5	MQ	Fixed (pegged): government decrees value against a currency, basket or gold; central bank intervenes and keeps reserves.
6	★	Soft peg (market-led; most IMF members) vs hard peg (fixed, unchanging); crawling peg and currency board lie beyond the SM.
Topic 4.3 · Fixed versus floating		
7	★	Fixed: no fluctuation risk, more trade and investment, LESS speculation, monetary discipline, credibility.
8	★	Floating: independent monetary policy, rate as policy tool, no huge reserves — but volatility, uncertainty, risk premium.
A2	★	Dirty float is a loose name for a managed float — a feature of floating, not fixed, regimes.
A3	★	Biggest disadvantage of floating: currency fluctuations create trade uncertainty.
Topic 4.4 · Nominal, real and REER		
9	★	Nominal = currency for currency; real = goods for goods ('how many' for 'one'); trade flows follow the real rate.
10	★	RER = NER × Domestic price index ÷ Foreign price index; rearrange to find NER.

11	★★	REER = NEER ÷ price deflator; rising REER → exports dearer, imports cheaper, lost competitiveness, current account deficit.
A4	★★	Find NER: RER × Foreign index ÷ Domestic index = 25 × 70 ÷ 140 = 12.5.

TRAPS TO AVOID

- ✕ Do not divide by the rate: 100 ÷ 0.85 gives about 118, which is the wrong direction.
- ✕ More US imports mean MORE dollars supplied, not fewer — Americans pay dollars to buy foreign currency.
- ✕ 'Dirty float' is only a loose name for a managed float — a feature of floating, not fixed, regimes.
- ✕ A fixed rate REDUCES speculation; 'an increase in speculation' is never one of its advantages.
- ✕ Do not flip the ratio: 25 × 140 ÷ 70 = 50 is the tempting wrong answer.
- ✕ A rising REER does not boost exports or make imports dearer — it does the opposite.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Meaning of exchange rate ☐ Foreign currency transactions ☐ Free and managed float ☐ Fixed rate and pegs
☐ Fixed vs floating merits ☐ Nominal vs real rate ☐ REER and competitiveness

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY
44

Forex Market and Exchange Rate Movements

Chapter 9 International Trade · Unit 4 · Topics 4.5 – 4.9

Revise in about 16 minutes · Video: Paper 4 Day 44 · Session 7 of your timetable

EXAM IN 60 SECONDS

1. Forex market: over-the-counter network; banks and brokers are market makers; US dollar is the vehicle currency.
2. Spot = immediate delivery; forward rate above spot = premium, below spot = discount.
3. Exchange rate is set where downward-sloping D$ meets upward-sloping S$.
4. More ₹ per $ = rupee depreciates; more demand for $ depreciates it, more $ supply appreciates it.
5. Devaluation / revaluation = official, fixed regime; depreciation / appreciation = market forces, floating regime.
6. Depreciation: exports cheaper, imports dearer, output and inflation up; appreciation does the reverse.

ONE LINERS

Topics 4.5 – 4.7 · Market, rate and its direction		
12	★★	Forex market: over-the-counter electronic network, very narrow spreads; US dollar = vehicle currency; FEMA governs forex in India.
13	★★	Direct quote (European) = local per 1 foreign; indirect (American) = foreign per 1 local; cross rate from two pairs; arbitrage equalises rates.
14	★	Equilibrium rate where D$ meets S$; demand from imports, transfers, income payments, assets, speculation; supply from exports, FDI/FPI inflows.
15	MQ	Beyond the SM: short run — interest, inflation, trade balance; long run — relative inflation; higher interest and stability → appreciation.
16	★	Appreciation = value up, depreciation = value down; $1 = ₹70 → ₹75 means the rupee depreciated, the dollar appreciated.
Topics 4.7 – 4.9 · Shifts, devaluation and effects		
17	MQ	More demand for a currency → it appreciates; more demand for foreign currency (e.g. wider trade deficit) → home currency depreciates.
18	★	Devaluation / revaluation = official change in fixed par value; depreciation / appreciation = market forces under floating.
19	★★★	**Depreciation: exports cheaper, imports dearer → output expansion, better trade balance, offsets inflation's competitiveness loss; but adds to inflation.**
20	★★	Appreciation: currency more valuable, buys more foreign currency; exports dearer so their quantity falls; imports cheaper so they rise.
21	★	Volatility deters FDI and FPI and raises hedging costs; trade deficit / CAD = imports exceed exports.

TRAPS TO AVOID

- ✕ The euro is half of the top pair, but the vehicle currency is the US dollar.
- ✕ Premium and discount compare the forward rate with the spot rate, not two spot rates.
- ✕ A bigger rupee number looks stronger, but more rupees per dollar means a weaker rupee.
- ✕ More demand for a country's own currency makes it appreciate; more demand for foreign currency depreciates the home currency.
- ✕ Depreciation raises, not lowers, the relative price of imports — a favourite ‘not associated’ option.
- ✕ The gain is not automatic: it depends on demand switching rightly and on home capacity to supply more.
- ✕ Depreciation helps exporters but adds to inflation; do not mark ‘reduces inflation’ as an effect of depreciation.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Forex market and vehicle currency ☐ Demand and supply of foreign exchange ☐ Appreciation vs depreciation
☐ Devaluation vs depreciation ☐ Effects of depreciation ☐ Effects of appreciation

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY
45

Foreign Capital, FDI and FPI

Chapter 9 International Trade · Unit 5 · Topics 5.2 – 5.5

Revise in about 17 minutes · Video: Paper 4 Day 45 · Session 7 of your timetable

EXAM IN 60 SECONDS

1. Foreign capital: aid, borrowings, NRI deposits and investments (FPI and FDI); World Bank = IBRD.
2. FDI: lasting interest and control, at least 10% of ordinary shares or voting power.
3. FDI components: equity, reinvested earnings, intra-company loans; portfolio investment and ECB are not FDI.
4. Horizontal = same business; vertical = supplementary; conglomerate = unrelated, often JV; two-way = reciprocal.
5. FPI: financial capital, below 10%, no control, short-term, speculative, easy to withdraw.
6. Chief FDI motive: higher return; also markets, resources, low wages, tariff-jumping, tax breaks, SEZs.

ONE LINERS

Topics 5.2 – 5.3 · Foreign capital and FDI		
1	MQ	Capital movements = cross-border flows of financial assets and liabilities; foreign capital = any capital inflow.
2	MQ	Foreign capital: aid, borrowings (World Bank/IMF/ADB, IDA soft loans, ECB, trade credit), NRI deposits, FPI and FDI.
3	★★	Beyond the SM: World Bank = IBRD (long-term development loans); GDR = overseas bank's receipt against domestic shares.
4	★	FDI (IMF): lasting interest and control, at least 10% voting power; components: equity, reinvested earnings, intra-company loans.
5	★	ECB is debt, not FDI; an FDI inflow improves the capital account but worsens NIIP.
6	★★	Horizontal = same business abroad; vertical = supplementary activity; conglomerate = unrelated (often JV); two-way = reciprocal.
Topics 5.4 – 5.5 · FPI and reasons for FDI		
7	★	FPI: financial capital in stocks/bonds, below 10%, no control, short-term, speculative, return-seeking.
8	★	FDI vs FPI: physical vs financial, long vs short, hard vs easy exit, technology and employment vs none.
9	★	Beyond the SM: FII develops the capital market and equity flows; capital flight = rapid outflow on uncertainty.
10	MQ	Chief motive: higher return than at home; firm-specific assets (management skill, patents).
11	★★	Reasons: markets, resources, low wages, scale, diversification, tariff-jumping, tax breaks, SEZs, stable climate.

TRAPS TO AVOID

- ✕ ECB is a borrowing (debt): it gives no ownership or control, so it is never FDI.
- ✕ It is 'at least' 10%: exactly 10% of voting power already qualifies as FDI.
- ✕ Portfolio investment is NOT a component of FDI: the June 2024 paper used it as the odd one out.
- ✕ Vertical is different but supporting; conglomerate is totally unrelated: do not swap them.
- ✕ 'Easy to withdraw' and 'speculative' always point to FPI, never to FDI.
- ✕ 'Getting behind the tariff wall' means producing inside the market, not lobbying for lower tariffs.
- ✕ A low tax burden alone cannot make up for a fragile, unattractive FDI environment.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Components of foreign capital ☐ FDI definition and components ☐ Types of FDI ☐ FDI vs FPI ☐ Reasons for FDI ☐ Beyond-SM facts (IBRD, GDR)

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY
46

FDI: Modes, Benefits, Problems, India and ODI

Chapter 9 International Trade · Unit 5 · Topics 5.6 – 5.10

Revise in about 16 minutes · Video: Paper 4 Day 46 · Session 7 of your timetable

EXAM IN 60 SECONDS

1 Seven modes: subsidiary, equity injection, controlling interest, M&A, joint venture, greenfield, brownfield.
2 Greenfield creates fresh assets; brownfield uses existing infrastructure by merging, acquiring or leasing.
3 India allows 100% FDI under the automatic route in brownfield airport projects.
4 Benefits: competition, capital, technology, direct and indirect jobs, exports, tax revenue, favourable BoP.
5 Problems: capital-intensive methods, crowding-out, currency instability, monopoly, dual economy, loss of sovereignty.
6 FDI is a non-debt resource for India; ODI is Indian firms investing abroad (outbound FDI).

ONE LINERS

Topic 5.6 · Modes of FDI		
12	★	Modes: subsidiary, equity injection, controlling interest, M&A, joint venture, greenfield, brownfield.
13	★★★	**Greenfield = new affiliate, fresh assets; brownfield = existing infrastructure via merger, acquisition or lease (100% automatic in brownfield airports).**
+	★★	Joint ventures, mergers and greenfield investments are modes of FDI; export quotas, tariffs and exchange controls are not.
+	★★	ONGC Videsh, incorporated by ONGC to explore and produce oil and gas abroad = greenfield investment.
Topic 5.7 · Benefits of FDI		
14	★	Benefits: direct and indirect employment, technology, competition, finance beyond savings, exports, tax revenue, BoP.
+	★	FDI sets up a production base: direct jobs, plus indirect jobs through linkages, ancillary units and multiplier effects.
+	★	Competition from FDI brings cost-reducing, quality-improving innovations and weakens domestic monopolies.
+	★	Capital flight and loss of foreign exchange reserves are not benefits of FDI; FDI brings foreign exchange in.
Topic 5.8 · Problems of FDI		
15	MQ	FDI inflow appreciates the host currency; imported inputs and profit repatriation depreciate it.
16	★	Problems: capital-intensive methods, regional disparity, crowding-out, BoP instability, distortions, monopoly, dual economy, sovereignty; tax competition.
+	★	Dual economy = a developed foreign sector beside an underdeveloped domestic sector.
+	★	With tax holidays and similar incentives to attract FDI, the host country loses tax revenue.
Topics 5.9 – 5.10 · FDI in India and ODI		
17	★★	FDI in India: non-debt resource; tax breaks and lower salaries attract it; RBI/FEMA regulate; Make in India; sectoral caps are dated.
6	★★	Horizontal = same business abroad; vertical = supplementary activity; conglomerate = unrelated (often JV); two-way = reciprocal.

+	★★	Telecom FDI raised to 100%; food products marketing and food e-commerce 100% automatic — check the current FDI Policy.
18	MQ	ODI = Indian companies investing abroad (outbound FDI), enabled by relaxed capital controls; RBI publishes the data.
+	★★	Inward FDI flows into a country; outward FDI flows out of it.

TRAPS TO AVOID

- × 'Money circulation' or 'demand' may tempt you, but the SM benefit the examiner wants is employment.
- × Crowding-out here means foreign firms borrowing in the host market, pushing up interest rates and reducing domestic investment.
- × Capital flight and loss of reserves are never benefits of FDI; FDI brings foreign exchange in.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Modes of FDI ☐ Greenfield vs brownfield ☐ Benefits of FDI ☐ Problems of FDI ☐ FDI and exchange rate
☐ FDI caps in India ☐ Inward FDI vs ODI

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 47

Indian Economy: From Colonial Rule to 1991 Reforms

Chapter 10 Indian Economy · Topics 10.1 – 10.4

Revise in about 26 minutes · Video: Paper 4 Day 47 · Session 8 of your timetable

EXAM IN 60 SECONDS

1. 1st–17th century: largest, prosperous, self-reliant economy; self-sufficient villages plus commercial cities.
2. British rule reversed trade; discriminatory tariffs destroyed handicrafts and agriculture collapsed.
3. Colonial industry lopsided — cotton and jute; manufacturing barely 7% of NDP in 1946.
4. Nehru: planning and heavy industry; Gandhi: cottage industry, village republics; Hindu growth rate 3.5%.
5. Green revolution mid-1960s: HYV seeds, water, fertiliser; 14 banks nationalised 1969; 1980s 'reforms by stealth'.
6. 1991 under Narasimha Rao: $1.2 billion forex triggered LPG; licensing cut, FDI 51%, rupee devalued 18–19%.

ONE LINERS

Topic 10.1 · Before and during British rule		
1	★★	1st–17th century AD: largest economy, prosperous and self-reliant; self-sufficient villages + commercial cities.
2	★	British rule: India became exporter of raw materials; discriminatory tariffs destroyed handicrafts → over-crowded land, subsistence farming, zamindari, collapse of agriculture.
3	★	Colonial industry lopsided — cotton and jute; producer goods lagged; manufacturing ~7% of NDP (1946).
+	★	Disguised unemployment is typical of the agricultural sector — rooted in colonial over-crowding of land.
Topic 10.2 · Planning, protection and farming		
4	★★★	**Nehruvian model: Planning Commission, five-year plans, growth with equity and distributive justice.**
5	★	1950s philosophies: Nehru (heavy industry) vs Gandhian (small-scale, cottage, village republics).
6	★	IPR 1948: State monopoly of atomic energy, arms and ammunition, railways; IPR 1956 over-expanded the public sector.
7	★	1958 BoP crisis → import controls till 1966; protection/import substitution.
8	★	Hindu growth rate = 3.5% (1950–80).
9	★★★	**Pre-1965 farm strategy institutional (land reforms, cooperatives); green revolution mid-1960s: HYV seeds, water, fertiliser, pesticides; wheat.**
Topics 10.2 – 10.4 · Controls, 1980s and the crisis		
10	★★	Nationalisation: 14 banks 1969 + 6 in 1980; MRTP Act 1969 curbed large firms with large market power.
11	★	1965–81 worst growth period: licence-raj, autarchic policies, three wars, droughts, oil shocks of 1973 and 1979.
12	★	Early liberalisation 1980s (after 1985), 'reforms by stealth'; growth 5.7% / 5.8%.
13	★★	1980s: 25 categories delicensed; broad-banding (trucks ↔ cars, no fresh licence); MRTP limit ₹20 → ₹100 crore; MODVAT; SEBI 12 April 1988 (non-statutory).
14	MQ	REER depreciated ~30% (1985–86 to 1989–90) → exports expanded.
15	★	1991 reforms under P. V. Narasimha Rao government (architect Dr Manmohan Singh — not in SM).

16	★★	Causes: debt-financed fiscal deficits, interest burden, Gulf-war oil shock, IMF conditions, 'crisis of confidence'.
Topic 10.4 · 1991: trigger, aims, fiscal and financial		
17	★	Trigger: BoP crisis — forex reserves $1.2 bn, barely two weeks of imports.
18	★★	Shift to market orientation and external openness; LPG (not socialisation).
19	★	Twin objectives: market-friendly reorientation + stabilisation via lower fiscal deficit; measures = stabilisation (short-term) + structural (long-term).
20	★	Fiscal reforms: transparent taxes, tax compliance, curb expenditure, cut subsidies, disinvestment, private participation.
21	★★	Monetary/financial: interest rate deregulation, private banks, lower SLR/CRR (Narasimham Committee 1991), branch licensing, prudential norms.
22	★	Pre-reform banking: administered interest rates, high reserve requirements, credit restrictions.
23	★	SEBI: 1988 set up, 1992 statutory recognition.
Topic 10.4 · 1991: industry, FDI, trade and rupee		
24	★★	New Industrial Policy 24 July 1991: Licence Raj ended (18 → 5 licensed industries); public sector → railway transport + atomic energy.
25	★★	1991: MRTP merger/takeover provisions repealed; SSI items de-reserved; disinvestment of PSU equity (= privatisation, not liberalisation).
26	★	FDI automatic approval up to 51%; FDI banned only in retail trade, atomic energy, lottery, betting & gambling.
27	★	Trade: QRs dismantled, import licensing removed, tariffs 355% → 10%.
28	★★	Rupee devalued 18–19% (July 1991); managed float from 1993; current-account convertible 1994.

TRAPS TO AVOID

- ✕ Do not choose 'dependent on imports', 'industrial production' or 'dominated by foreign trade' for the pre-British economy.
- ✕ 'Prosperous and self-reliant' describes the 1st–17th century, not 1850–1947, which was an impoverished, under-developed economy.
- ✕ Lopsided growth means cotton and jute dominated — not wool, silk or nylon; producer goods industries did not expand.
- ✕ Before the green revolution the strategy was institutional (land reforms) — HYV seeds and technology came with the green revolution.
- ✕ Currency demonetisation was not a 1980s reform; broad-banding means changing product mix, not adding new licences.
- ✕ High forex reserves were NOT a cause; import curbs, IMF conditions and a 'crisis of confidence' were.
- ✕ 'Socialisation' is NOT part of the 1991 reforms — India moved away from the socialist model.
- ✕ Since 1993 India has followed a managed floating exchange rate — not a fixed peg, which ended with the 1993 float.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Pre-British and colonial economy ☐ Colonial industry: cotton and jute ☐ Nehruvian vs Gandhian; IPRs ☐ Green revolution and controls ☐ 1980s early liberalisation ☐ 1991 crisis and LPG objectives ☐ 1991 reform measures

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY
48

GDP Growth after 1991 and NITI Aayog

Chapter 10 Indian Economy · Topics 10.5 – 10.6

Revise in about 17 minutes · Video: Paper 4 Day 48 · Session 8 of your timetable

EXAM IN 60 SECONDS

1 GDP growth rate is the most reliable indicator of economic growth; Table 10.1 covers 1991 to 2021.
2 Peak 1999 (8.85%); only negative year 2020 (−6.60%); 1991 just 1.06%; 2021 rebound 8.68%.
3 Missing year = (n × average) − known sum; averages: 2001–2010 about 6.8%, 1991–2000 about 5.6%.
4 1 January 2015: NITI Aayog replaced the Planning Commission; think tank, co-operative federalism.
5 NITI: village-level plans aggregated upward; no five-year plans, no budgeting, no fund allocation.
6 Initiatives: LiFE, NDAP (data), Shoonya (clean air via EVs), E-Amrit (EV information), IPI, Methanol, Gold.

ONE LINERS

Topic 10.5 · Growth after the 1991 reforms		
29	★★★	**Post-reform gains: forex cushion ~8 months of imports; services trade surplus ~3.7% of GDP; but public debt 86% of GDP (FY21/22) and growing inequality.**
30	★	Post-reform GDP growth commendable except 2020 (−6.6%); peak 1999 (8.85%); GDP growth rate = most reliable growth indicator.
+	★	Table 10.1 averages: 1991–2000 ≈ 5.6%; 1992–2001 ≈ 6.0%; 2001–2010 ≈ 6.8%.
+	★	Missing year = (n × average) − sum of known years: x + 7.9 + 8.5 = 3 × 8.2 = 24.6, so x = 8.2%.
+	★	Inflation in India is commonly measured by the Consumer Price Index (CPI).
Topic 10.6 · NITI Aayog: origin and role		
31	★★	NITI Aayog replaced Planning Commission on 1 January 2015 — think tank, co-operative federalism.
32	★★	NITI: village-level credible plans aggregated upward; no five-year plans, no budgeting/fund allocation.
+	★★	Aims: spur innovative thinking by objective experts; enhance the voice and influence of the states; 'directional and policy dynamo'.
+	★★	Limited role: no national plans, no control of expenditure, no review of state plans; excluded from budgeting.
Topic 10.6 · NITI Aayog: key initiatives		
33	★★★	**NITI initiatives: LiFE, NDAP (govt data), Shoonya (air quality via EVs), E-Amrit (EV information), IPI, Methanol Economy, Gold Market.**
+	★	NDAP facilitates and improves access to Indian government data.
+	★★	E-Amrit: one-stop destination for EV information; Shoonya: air quality by faster EV deployment.
+	★	LiFE envisions replacing the prevalent 'use-and-dispose' economy.
+	★	Methanol Economy: cut oil import bill and GHG; coal and municipal solid waste (not industrial waste) into methanol.
+	★	Atal Tinkering Labs are an initiative of NITI Aayog (Atal Innovation Mission).

TRAPS TO AVOID

✕ GDP and IIP measure output, not prices; do not pick them for an inflation question.
✕ The 6.8% average belongs to 2001 – 2010; the decade 1991 – 2000 averages only about 5.6%.

- ✗ Do not average only the two known figures; use all n years in the sum.
- ✗ 1 April 2015 and 1 July 2015 are distractor dates; the SM date is 1 January 2015.
- ✗ Methanol comes from coal and municipal solid waste, not industrial waste; E-Amrit is not E-NAM.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Post-reform gains and constraints ☐ Table 10.1 growth figures ☐ Average growth numericals ☐ NITI Aayog: origin and aims ☐ NITI objectives and limits ☐ NITI key initiatives

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

DAY 49

Indian Economy Today: Three Sectors and Conclusion

Chapter 10 Indian Economy · Topics 10.7 – 10.8

Revise in about 15 minutes · Video: Paper 4 Day 49 · Session 8 of your timetable

EXAM IN 60 SECONDS

1. Agriculture is the largest livelihood (47%); services give the largest GVA share (53.89%).
2. MSP for 23 crops = 1.5 × cost; E-NAM unifies APMC mandis; PKVY = organic farming.
3. Eight core industries = 40.27% of IIP; information and communication is not a core industry.
4. GII 40th (2022, from 81st); EoDB 63rd (2020); PMI = Purchasing Managers' Index, 55.4.
5. Gati Shakti logistics, PLI manufacturing, FAME EVs, Udyami Bharat MSMEs, PM MITRA textiles.
6. India bypassed industry for services; World Bank IDU (Nov 2022) found India resilient.

ONE LINERS

Topic 10.7.1 · Primary sector		
34	★★	Primary: milk is primary; 47% of population depends on agriculture; agri GVA 18.8% (2021–22); food grains 315.7 mn tonnes.
35	★	MSP: 23 mandated crops at 1.5 × cost of production.
36	★★	APEDA = Agricultural and Processed Food Products Export Development Authority; 100% FDI (automatic) in food marketing/e-commerce and telecom.
37	★★★	**Farm schemes: PM KISAN (income), PMFBY (crop loss), PKVY (organic), PDMC (water), Kisan Rail (logistics), E-NAM (unified market of APMC mandis).**
38	★	Agri issues: small holdings, low productivity, subsistence farming, low marketable surplus.
Topic 10.7.2 · Secondary sector		
39	★★	ICI: 8 core industries (coal, crude, gas, refinery, fertilisers, steel, cement, electricity) = 40.27% of IIP; PMI 55.4; GII 40th (2022).
40	★★★	**Industry policy: DPIIT; Make in India 2014 (2.0: 15 mfg + 12 services); EoDB rank 63 (2020).**
41	★★★	**Gati Shakti (multimodal planning), PLI (Mar 2020, white goods), FAME (EVs), Udyami Bharat (MSMEs), PM MITRA (textiles).**
42	★★★	**FIPB → FIF (May 2017); RoDTEP replaced MEIS (2021); Start-up India; ECLGS; NMP 25% of GDP by 2025.**
Topics 10.7.3 – 10.8 · Services and conclusion		
29	★★★	**Post-reform gains: forex cushion ~8 months of imports; services trade surplus ~3.7% of GDP; but public debt 86% of GDP (FY21/22) and growing inequality.**
43	★★★	**Services: bypassed secondary; 53.89% of GVA; fastest growing; highest labour productivity; >60% of FDI equity.**
44	★	Construction is not a service (NIC 2008 Box 2 list).
45	★	IDU (World Bank, Nov 2022): oil, supply disruptions, tight finance, inflation; India resilient.

TRAPS TO AVOID

- ✕ Agriculture employs the most people, but it does not contribute the most to GVA.
- ✕ Do not call Indian farms mostly irrigated — about two-thirds of the agricultural area is rain-fed.
- ✕ Do not answer 'agriculture to industry' for India; that is the usual path of other nations.
- ✕ Highest labour productivity is in services, not in manufacturing — read the option carefully.

WEAK SPOTS — TICK WHERE YOU SLIPPED

☐ Primary sector figures and MSP ☐ Farm schemes and E-NAM ☐ Core industries, PMI and GII ☐ Industrial schemes (PLI, FAME, PM MITRA) ☐ Services sector and NIC list ☐ World Bank IDU conclusion

MY ERROR LOG

Question (Set and number)	Why I got it wrong	Rule to remember

Final Sprint

Every ★★★ One Liner in the paper — the lines ICAI has tested most often. Read them on the last evening, then go through your error log.

Day 1	'The Wealth of Nations' (1776), Adam Smith — first modern work of Economics.
	Scarcity → all economic problems; unlimited ends + limited means → problem of choice; every choice is a trade-off.
	Micro = behaviour of individual units (consumers, firms); 'price theory'.
	Micro list: product pricing, consumer behaviour, factor pricing, conditions of a section of people, behaviour of firms, location of industry.
	Macro list: national income/output, general price level & interest rates, BoT & BoP, external value of currency, overall savings & investment, employment & growth.
	Nature (8 points): Science · based on Micro · incorporates Macro · Art · theory of markets & private enterprise · Pragmatic · Interdisciplinary · Normative.
	Pragmatic: Micro is abstract, theoretical, unrealistic assumptions; BE tackles real-world problems.
	Positive = 'what is', cause–effect, no value judgement; Normative = 'what ought to be', value judgement, prescriptive, welfare.
	Tax: incidence & incentive effect = positive; fairness = normative.
Day 2	Four basic problems: What · How · For whom · What provision for growth (not Where / When).
	Capitalist = free market = laissez-faire: means of production privately owned for profit; USA, UK, Hong Kong, S. Korea.
	Capitalism solves central problems through price mechanism (demand & supply); no central planning authority; invisible hand; self-regulating.
	Capitalist demerits: inequality, property rights over human rights, ignores welfare, labour exploitation, sovereignty a myth, luxury-goods bias, instability, advertising waste, monopolies, environment.
Day 3	Socialism: Karl Marx & Frederick Engels, 'The Communist Manifesto', 1848.
	Socialist = Command = Centrally Planned economy; State owns means of production; aim = welfare of community; solved through planning.
	Mixed economy first feature: co-existence of private & public sectors; three sectors — private, public, combined (joint).
Day 4	Snob: demand falls because others buy (exclusivity; function of others' consumption).
Day 5	Law of demand (Marshall): inverse price–quantity relation, ceteris paribus.
	Substitution effect: response to relative price change; always positive on a price fall; stronger with closer substitutes, lower switching cost and inconvenience.
	Exceptions: conspicuous goods, Giffen goods, conspicuous necessities, price expectations, incomplete information / irrationality, necessaries, speculative goods.
	Giffen: inferior, no close substitutes, large budget share, upward-sloping curve (bajra); all Giffen goods are inferior, not vice versa.
Day 6	Expansion = price fall → more demanded (downward movement); contraction = price rise → less demanded (upward movement).
	New Q: $\Delta Q = Ep \times Q \times \Delta P/P$; new P: $\%\Delta P = \%\Delta Q \div Ep$.
	Arc: two points, large changes, average base — $(Q2-Q1)/(Q2+Q1) \times (P2+P1)/(P2-P1)$, sign dropped.
	Values from 0 to ∞: 0 vertical; < 1 steep; 1 rectangular hyperbola; > 1 flat.
	TR = P × Q; elastic: price up → TR down; unitary: TR same; inelastic: price up → TR up.

	PED determinants: substitutes, budget share (bigger share → more elastic), luxury vs necessity, number of uses, time, habits, tied demand, price range, minor complements.
	Habitual consumption and necessities (salt, medicine, vegetables) → inelastic; jewellery → elastic.
Day 7	Ei > 1 luxury; 0 < Ei < 1 necessity (normal); Ei < 0 inferior.
	Ec = % change in Qx ÷ % change in Py — the sign matters.
	Substitutes: Ec positive (perfect substitutes ∞); unrelated goods: 0.
	Ec numericals: 15% ÷ 10% = +1.5; coffee ₹500 → ₹450, sugar 10 → 15 kg: 50% ÷ −10% = −5.
	Advertisement elasticity = % change in Qd ÷ % change in ad spend; typically positive, 0 to ∞; > 1 = demand rises faster than ad spend.
Day 8	TU = ∑MU; MU = TUn − TUn−1 = addition to TU; TU = MU at the first unit.
	TU2 = TU1 + MU2 = 200 + 180 = 380; MU3 = TU3 − TU2 = 480 − 380 = 100.
Day 9	Consumer surplus (Marshall) = what consumer is ready to pay − what he actually pays (net of all discounts).
	CS derived from law of DMU; buys till MU = price; zero surplus on the marginal unit.
	IC properties: slopes down · convex · never intersect · higher = better · never touches axes.
	Perfect substitutes → straight line; perfect complements → L-shaped (right-angle bend).
	Equilibrium: price line tangent to highest IC; MRSxy = MUx/MUy = Px/Py; MUx/Px = MUy/Py.
Day 10	Es = %ΔQs ÷ %ΔP = (Δq/Δp) × (p/q), original p and q; positive.
	Measurement: point Es = (dq/dp) × (p/q); arc Es = (Q2 − Q1)/(Q2 + Q1) × (P2 + P1)/(P2 − P1).
	Es = 0 → vertical (parallel to Y-axis), e.g. land; Es = ∞ → horizontal (parallel to X-axis).
Day 11	Land (7): free gift · fixed supply · permanent/indestructible (Ricardo) · passive · immobile · multiple uses · heterogeneous. NOT perishable, active or homogeneous.
	Fixed = series of services; Circulating = single use (seeds, fuel, raw materials); Intangible = goodwill, patents, copyrights; Social = roads, bridges.
Day 12	Production function = technical relationship inputs → output; Samuelson: maximum output from given inputs, given technology; or minimum inputs for a given output.
	MPn = TPn − TPn−1 (slope of TP); AP = TP ÷ units; TP = ΣMP = AP × units — build the schedule first.
	Point of inflexion → MP maximum; TP flattening → diminishing marginal returns begin.
	Stages: increasing · diminishing · negative returns; TP falls and MP < 0 only in Stage 3; Stage 2 ends at TP maximum (MP = 0).
	CRS = linear homogeneous production function; IRS > proportionate; DRS < proportionate; sequence IRS → long CRS → DRS.
Day 13	Implicit = own capital's normal return + entrepreneur's foregone salary; own input → explicit cost zero; ₹ capital × normal rate.
	Outlay cost = actual expenditure, recorded in books; opportunity cost = next best alternative foregone, not recorded, useful in long-term calculations.
	Sunk = incurred once and for all, unrecoverable (advertising, R&D, specialised equipment, railway lines); barrier to entry; irrelevant to decisions.
Day 14	TC = TFC + TVC; TC − TVC = TFC (vertical gap); TFC = constant term of the cost function.
	AFC = TFC ÷ Q: falls throughout, never touches X-axis, never U-shaped.
	AFC sums: TFC = TC at Q = 0 (or AFC × Q), then ÷ new Q.
	AVC = TVC ÷ Q = ATC − AFC; falls (increasing returns) then rises (diminishing returns).
	ATC = AFC + AVC = TC ÷ Q; U-shaped; ATC and AVC converge as AFC shrinks.

	MCn = TCn − TCn−1 = ΔTVC; over steps, ΔTC ÷ ΔQ; independent of fixed cost.
	AC falling → MC < AC; AC rising → MC > AC; AC minimum → MC = AC (MC cuts AC and AVC at their minima).
Day 15	SACs = plant curves; LAC = envelope (tangent to each SAC, not at their minima) = planning curve.
	Internal kinds: technical · managerial · commercial (bulk buying, by-products) · financial · risk-bearing.
	Supply of skilled labour and localisation of industry are external, not internal.
	External (industry expansion): cheaper materials · technology · skilled labour · ancillary industries · transport & marketing · information.
Day 16	Five elements: buyers & sellers · product/service · bargaining for a price · knowledge of market conditions · one price at a given time (NOT volume of business, advertisement, firm, multiple prices).
	Nature of transaction: spot/cash (immediate payment; mandi grain) vs forward/future (future delivery; forex contract from a bank).
Day 17	AR = TR/Q = P; AR curve = firm's demand curve.
	MR = ΔTR/ΔQ; MRn = TRn − TRn−1; from P and Q compute TR first; MR can be zero or negative.
	TR rises at a diminishing rate (diminishing MR), is maximum when MR = 0, falls when MR < 0.
	MR = AR × (e − 1)/e — take e as a positive number.
	Principle 2: maximum profit at MR = MC (first-order condition); MR slopes down, MC slopes up.
Day 18	Government may fix prices (procurement/support prices); floor above equilibrium; ceiling below equilibrium → shortages, allocation problems, black marketing.
	Same direction: quantity certain, price uncertain; equal shifts leave price unchanged; the larger shift decides price.
Day 19	NOT perfect competition: selling costs, advertising, inelastic demand, inefficient allocation; 'absence of transport cost' is not an SM condition.
	Firms are price takers: no control over price; industry price set by market demand = market supply.
	Firm's demand (AR) = horizontal line, parallel to X-axis, infinitely elastic; but the market demand curve still slopes down.
	Equilibrium: MR = MC and MC cuts MR from below (MC positive slope).
Day 20	Barriers to entry = fundamental cause: patents and copyrights, government rights, scarce resources, natural monopoly; entry restricted at all times; nuclear power = government monopoly.
	Cross elasticity zero or very small; price elasticity < 1; steep downward-sloping AR.
	Long run: no continuing losses; supernormal profit persists because entry is blocked.
	Conditions: price-setting power · separable sub-markets · different elasticities (profitable only then) · no resale.
	Pigou's degrees: 1st = each individual consumer (entire surplus); 2nd = quantities sold; 3rd = location or customer segment.
	Third-degree examples: dumping; domestic vs commercial (rural vs industrial) electricity; railway senior-citizen fares.
Day 21	Examples: soaps and detergents, toothpaste, restaurants, hotels, repair shops, clothing, retail.
	Demand curve downward sloping, relatively elastic; MR below it; monopoly's demand curve is steeper.
	Differentiated products: monopolistic competition and oligopoly.
Day 22	Differentiated products: monopolistic competition and oligopoly.
	Oligopoly = competition among the few (2–10), homogeneous or differentiated, strong barriers to entry, price makers.

	Oligopoly examples: cold drinks, automobiles, airlines, telecom, ISPs, smartphones; OPEC = best example of a cartel.
	Pure/perfect (homogeneous: aluminium) vs imperfect (differentiated: talcum powder); open vs closed.
	Collusive vs competitive; partial (one dominant leader) vs full; syndicated (central syndicate) vs organised (central association).
	Characteristics: strategic interdependence (most important) · advertising and selling costs · group behaviour — no free entry.
	Cartel = explicit collusion; few firms of similar size; subset of producers; aim to raise price; impossible with many firms.
	Kinked demand curve: Paul A. Sweezy; explains price rigidity.
	Bilateral monopoly = single buyer + single seller = monopoly + monopsony.
Day 23	Good trade = rising prices, low unemployment; bad trade = falling prices, high unemployment.
	Four phases: Expansion (boom/upswing) · Peak (boom/prosperity) · Contraction (downswing/recession) · Trough (depression). Not 'reconstruction'.
	Turning points = peak and trough (boom and depression).
	Expansion: output, employment, AD, capital & consumer expenditure, sales, profits, stock prices, bank credit all rise.
	Peak: input and output prices rise, cost of living up, strain on fixed income earners; actual demand stagnates.
	Contraction: demand halted; investment and employment fall; supply far exceeds demand; orders cancelled → beginning of recession.
	Recession deepens: prices fall, unemployment rises, output falls, bank credit shrinks, stock prices fall.
	Depression = severe form of recession: negative growth, rapid fall in national income and expenditure, rampant unemployment.
	Depression: interest rate falls, liquidity preference rises; excess capacity in capital and durable goods industries.
	Great Depression 1930s (1929–33): began in the US; Keynes → low aggregate expenditure; monetarists → low money supply.
	Leading = changes BEFORE real output (precursor of upturns and downturns).
	Leading examples: stock prices, new orders for consumer goods and plant & equipment, building permits, consumer confidence, money growth.
	Lagging = changes AFTER real output; reflects history; confirms trends.
	Lagging examples: unemployment, corporate profits, labour cost per unit of output, interest rates, CPI, commercial lending.
	Coincident = concurrent: moves WITH the cycle; describes current state and rate of change.
	Coincident examples: GDP, industrial production, inflation, personal income, retail sales, financial market trends.
Day 24	Features: periodic but not regular; duration, intensity and phase length vary.
	Features: four distinct phases; originate in free market economies; pervasive.
	Contagious and international; spread through trade; effects felt simultaneously on nearly all variables.
	Internal (endogenous): effective demand, investment, govt spending, macro policies, money supply, psychological factors.
	External (exogenous): war, post-war reconstruction, technology shocks, natural factors, population growth.

	Hawtrey → purely monetary (money supply); Pigou → psychology (optimism/pessimism); Schumpeter → innovations; Kaldor → cobweb.
	Cyclical businesses: fashion retail, electrical goods, house-building, restaurants, advertising, overseas tours, construction.
Day 25	GDP deflator = Nominal ÷ Real × 100 — a price index that measures inflation (PPP prices do not).
	Gross − Net = depreciation: NDP = GDP − dep, so NDP ≤ GDP; gross investment = net + replacement; dep > gross investment → capital stock shrinks.
	MP − FC = net indirect taxes (IT − subsidies); direct taxes irrelevant.
Day 26	Value added = Product = Industrial Origin = Net Output method; count only final goods / value added to avoid double counting.
	GVAMP = (Sales + closing − opening stock) − IC; NVA = GVA − dep; FC = MP − IT + subsidies.
Day 27	National income depends on aggregate effective demand; the Depression = insufficient spending.
Day 28	Solve Y = C + I (or S = I); C = Y − S.
	k = 1/(1 − MPC) = 1/MPS; higher MPC → larger k; k = ∞ when MPC = 1.
	ΔY = k × ΔI; MPC = 1 − 1/k.
	National income depends on aggregate effective demand; the Depression = insufficient spending.
Day 29	Musgrave, 'The Theory of Public Finance' (1959): allocation (efficiency), redistribution (fairness), stabilisation (price stability).
	Art. 280: Finance Commission — tax sharing, grants-in-aid, vertical and horizontal equity; NDP = gross tax revenue minus cesses, surcharges, non-tax revenue.
Day 31	Akerlof's lemons = poor-quality used cars; good cars driven out; buyers end up with sub-standard goods.
Day 33	Fiscal deficit = total expenditure − receipts excl. borrowing = RD + (CE − non-debt capital receipts) = borrowing requirement.
Day 34	Fiscal deficit = total expenditure − receipts excl. borrowing = RD + (CE − non-debt capital receipts) = borrowing requirement.
Day 35	Fiscal policy = deliberate govt use of taxation, public expenditure and borrowing to influence AD, output, employment.
Day 36	Fisher (1911): MV = PT, extended to MV + M'V' = PT. With V and T constant, P varies in proportion to M.
	Liquidity trap: interest rate near 0, speculative demand perfectly elastic, curve parallel to the X-axis, monetary policy ineffective.
Day 37	Sources: the central bank (high-powered money) and the banks (credit money, created on deposits).
	M1 = C + DD + OD(RBI); M2 = M1 + post office savings deposits; M3 = M1 + time deposits; M4 = M3 + total post office deposits (excluding NSCs).
	Currency with the public = notes + rupee coins + small coins − cash with banks.
	The RBI has published M1, M2, M3 and M4 since April 1977, on the Second Working Group's recommendation.
Day 38	M = m × MB, and m = M/MB (ΔM/ΔMB).
	Simple multiplier = 1/R; credit multiplier = 1/RRR; credit created = deposit × 1/RRR.
	Required reserve ratio up means money supply down; a CRR cut raises lending capacity.
	Currency–deposit ratio = banking habits. A smaller ratio gives a larger multiplier; more cash held gives a smaller money supply.
Day 39	Quantitative tools: CRR, SLR, OMO. Qualitative tools: margin requirements, moral suasion, selective credit control. Taxes and spending are fiscal.

	CRR = cash with the RBI, no interest. SLR = liquid assets (gold or government securities). Extra CRR = NDTL × ΔCRR.
	LAF (Narasimham Committee) = repo + reverse repo. Reverse repo = repo − 1 and absorbs liquidity (banks lend to the RBI).
Day 40	Mercantilism (16th–18th c.): aggressive exports over imports → wealth, bullion, favourable BoT; high import tariffs.
	H-O = Factor-Endowment = Modern theory: 2 factors; export goods using the abundant factor.
Day 41	Dumping = sale abroad below home price or full average cost; ADD on imports below fair market value; CVD offsets export subsidies.
Day 42	RTAs: 339 in force on 1 Feb 2021; eight types, unilateral → EMU; bilateral = two countries/blocs.
Day 44	Depreciation: exports cheaper, imports dearer → output expansion, better trade balance, offsets inflation's competitiveness loss; but adds to inflation.
Day 46	Greenfield = new affiliate, fresh assets; brownfield = existing infrastructure via merger, acquisition or lease (100% automatic in brownfield airports).
Day 47	Nehruvian model: Planning Commission, five-year plans, growth with equity and distributive justice.
	Pre-1965 farm strategy institutional (land reforms, cooperatives); green revolution mid-1960s: HYV seeds, water, fertiliser, pesticides; wheat.
Day 48	Post-reform gains: forex cushion ~8 months of imports; services trade surplus ~3.7% of GDP; but public debt 86% of GDP (FY21/22) and growing inequality.
	NITI initiatives: LiFE, NDAP (govt data), Shoonya (air quality via EVs), E-Amrit (EV information), IPI, Methanol Economy, Gold Market.
Day 49	Farm schemes: PM KISAN (income), PMFBY (crop loss), PKVY (organic), PDMC (water), Kisan Rail (logistics), E-NAM (unified market of APMC mandis).
	Industry policy: DPIIT; Make in India 2014 (2.0: 15 mfg + 12 services); EoDB rank 63 (2020).
	Gati Shakti (multimodal planning), PLI (Mar 2020, white goods), FAME (EVs), Udyami Bharat (MSMEs), PM MITRA (textiles).
	FIPB → FIF (May 2017); RoDTEP replaced MEIS (2021); Start-up India; ECLGS; NMP 25% of GDP by 2025.
	Post-reform gains: forex cushion ~8 months of imports; services trade surplus ~3.7% of GDP; but public debt 86% of GDP (FY21/22) and growing inequality.
	Services: bypassed secondary; 53.89% of GVA; fastest growing; highest labour productivity; >60% of FDI equity.

BEFORE YOU LEAVE FOR THE EXAMINATION HALL

- ☐ Admit card, photo identity and permitted stationery packed the night before.
- ☐ Light breakfast; reach the centre early.
- ☐ Read every question fully; mark the answer only when sure. Leave a blank rather than guess wildly.
- ☐ Keep an eye on the clock: about one minute per question.